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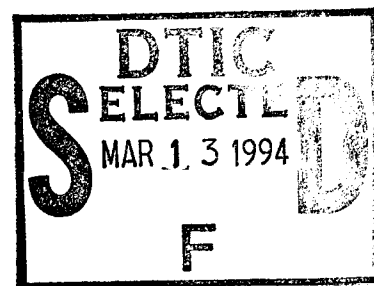


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# NAVAL POSTGRADUATE SCHOOL MONTEREY, CALIFORNIA



## THESIS

### AN ANALYSIS OF NAVSEA DOWNSIZING

by

Judith Brock-Mack

September, 1994

Thesis Advisor:  
Co-Advisor:

J. McCaffery  
M. Eitelberg

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19950308 155

**REPORT DOCUMENTATION PAGE**

Form Approved OMB No. 0704-0188

Public reporting burden for this collection of information is estimated to average 1 hour per response, including the time for reviewing instruction, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to Washington Headquarters Services, Directorate for Information Operations and Reports, 1215 Jefferson Davis Highway, Suite 1204, Arlington, VA 22202-4302, and to the Office of Management and Budget, Paperwork Reduction Project (0704-0188) Washington DC 20503.

1. AGENCY USE ONLY (Leave blank)	2. REPORT DATE September 1994	3. REPORT TYPE AND DATES COVERED Master's Thesis	
4. TITLE AND SUBTITLE AN ANALYSIS OF NAVSEA DOWNSIZING		5. FUNDING NUMBERS	
6. AUTHOR(S) Judith Brock-Mack			
7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES) Naval Postgraduate School Monterey CA 93943-5000		8. PERFORMING ORGANIZATION REPORT NUMBER	
9. SPONSORING/MONITORING AGENCY NAME(S) AND ADDRESS(ES)		10. SPONSORING/MONITORING AGENCY REPORT NUMBER	
11. SUPPLEMENTARY NOTES The views expressed in this thesis are those of the author and do not reflect the official policy or position of the Department of Defense or the U.S. Government.			
12a. DISTRIBUTION/AVAILABILITY STATEMENT Approved for public release; distribution is unlimited.		12b. DISTRIBUTION CODE *A	
13. ABSTRACT (maximum 200 words)  Throughout the early nineties, the Navy has downsized in an unprecedented manner primarily as a result of the end of the Cold War era. An initial analysis of how such downsizing measures have occurred within the Department of the Navy is undertaken by studying the Headquarters Department of Naval Sea Systems Command (NAVSEA). As the largest naval shore command, much valuable information can be extracted for possible guidance to other commands and military officers attempting to further reduce their organizational structure. A model of public sector force reduction decisions is introduced to provide a basis for comparison and to facilitate learning from NAVSEA Headquarters' experiences.			
14. SUBJECT TERMS  NAVSEA, Downsizing, Cutback Management.		15. NUMBER OF PAGES 96	
		16. PRICE CODE	
17. SECURITY CLASSIFICATION OF REPORT Unclassified	18. SECURITY CLASSIFICATION OF THIS PAGE Unclassified	19. SECURITY CLASSIFICATION OF ABSTRACT Unclassified	20. LIMITATION OF ABSTRACT UL

NSN 7540-01-280-5500

Standard Form 298 (Rev. 2-89)

Prescribed by ANSI Std. Z39-18 298-102

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AN ANALYSIS OF NAVSEA  
DOWNSIZING

by

Judith Brock-Mack  
Lieutenant Commander, United States Navy  
B.S., Tennessee State University, 1983

Submitted in partial fulfillment  
of the requirements for the degree of

**MASTER OF SCIENCE IN MANAGEMENT**

from the

**NAVAL POSTGRADUATE SCHOOL**  
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## ABSTRACT

Throughout the early nineties, the Navy has downsized in an unprecedented manner primarily as a result of the end of the Cold War era. An initial analysis of how such downsizing measures have occurred within the Department of the Navy is undertaken by studying the Headquarters Department of Naval Sea Systems Command (NAVSEA). As the largest naval shore command, much valuable information can be extracted for possible guidance to other commands and military officers attempting to further reduce their organizational structure. A model of public sector force reduction decisions is introduced to provide a basis for comparison and to facilitate learning from NAVSEA Headquarters' experiences.

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## ACKNOWLEDGEMENTS

Sincere appreciation and recognition is expressed to the following individuals, without whose contribution this thesis would not exist.

First, to Professor L. K. Jones for the original vision of analyzing NAVSEASYSCOM's downsizing. His idea illumined the path of this thesis and led to greater knowledge and discovery.

Next, sincere gratitude goes to Professor Jerry McCafferey for his extreme patience and guidance in completing this project. Also to Professor Mark J. Eitleberg for his in-depth literary review which greatly enhanced the quality of writing.

To Eva and Bill Anderson, for without their giving generosity of time, editorial comments and clerical assistance, I would not have finished on time.

To my loving husband, Bill Mack, for all of the moments we have yet to share!



## I. INTRODUCTION

### A. THE THESIS

During 1991-1993, NAVSEA Headquarters has downsized repeatedly primarily due to personnel and budget cuts, plus DoD- and Navy-directed reorganization requirements. As the largest Naval Command, with an excess of 4,000 military and civilian employees, a diagnosis of their downsizing methodology will provide insight on downsizing for other Naval and DoD commands.

With future DoD budget cuts forecasted as a result of actions by Congress, there are no Naval commands exempt from future budget reductions. How these commands might implement the necessary reductions remains to be seen. With limited guidance to facilitate decision-making processes, any "tool" that provides greater clarity will benefit the Navy.

One possible "tool" is Jones' model of fiscal stress responses which discusses "the manner in which public organizations recognize and attempt to manage financial crises and prolonged financial stress." The foundation of the model lies in three basic assumptions:<sup>1</sup>

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<sup>1</sup> L. R. Jones and Glen C. Bixler, Mission Financing to Realign National Defense, JAI Press, Inc., 1992, p. 48.

1. Public organizations employ four non-mutually exclusive responses in managing fiscal stress:

- across-the-board reduction;
- specific program reduction;
- program termination; and
- program reorganization and consolidation or merger.

2. Significant centralization of authority characterizes restraint responses.

3. Organizational "smoothing" of reduction over a multiyear period accommodates fiscal restraint more effectively than quick cuts.

#### **B. OBJECTIVE OF THE THESIS**

This thesis will document and analyze the downsizing of NAVSEASYS COM Headquarters using as a base of comparison the model provided in "Phases of Recognition and Management of Financial Crisis in public Organization" by L.R. Jones. The central focus of this thesis is to describe how NAVSEA Headquarters has implemented budget cuts and to ascertain whether their actions in downsizing parallel the outcomes predicted by the Jones model. This will be accomplished by studying various command data and comparing them to the model.

As Executive and Congressional budget cuts will continue to force reductions upon Naval commands, activity Commanders need viable information and/or "tools" at their disposal to

accommodate change. Documenting the downsizing of the largest Naval Command in comparison to a "model" might help meet this need.

### **C. RESEARCH QUESTIONS**

The primary research questions are:

- Does NAVSEA Headquarters' downsizing parallel that of the Jones model? If not, what alternate decision process was implemented?
- Were drawdown decisions made by central authority?
- Were "Across-The-Board" or a "Reduction in Targeted Services Programs" or a combination of both implemented?

Subsidiary research questions include the following:

- How has NAVSEA Headquarters organizational structure (departments and people) changed as a result of budget cuts from 1991 to 1993?
- How were billets eliminated--by attrition or other methodology?
- Did NAVSEA develop a long term POA&M for its organizational restructure before or after downsizing?
- Does the Jones model provide potential guidance for DoD activities to effectively utilize in drawdown decisions?
- What notable discrepancies are not addressed by the model?

### **D. SCOPE AND LIMITATIONS**

This thesis will primarily discuss the downsizing of the Headquarters department within NAVSEA and its affiliated Program Executive Officers (PEOs) and Direct Reporting Program Managers (DRPMs) due to the massive organizational

responsibilities that are involved. There will be some command-wide information dispersed throughout to provide greater clarity of the impact that Headquarters downsizing generates.

By no means does this thesis purport to document every restructuring change that Headquarters experienced from 1991 through 1993, only the significant ones as obtained from the data collected. It is acknowledged that this department has continued to downsize, and more downsizing is predicted in future years according to their force reduction plans.

Lastly, it is assumed that the reader is generally familiar with the concept of Total Quality Management (TQM) or Leadership (TQL) in relation to Navy practices and doctrines.

#### **E. THESIS OUTLINE**

The remainder of this thesis is divided into four chapters. The second chapter will provide a composite literature review on downsizing overall followed by Congressional restrictions imposed upon the Department of Defense and the Navy in particular. Some of the Navy's cutback management decisions and force reductions are elaborated with implications of the impact to society.

The third chapter will set the stage for understanding NAVSEA's missions and functions followed by what Headquarters did or planned to do in complying with Navy's downsizing

mandates. NAVSEA's strategic objectives and actions will be detailed with respect to its Headquarters' Department.

The fourth chapter will compare the downsizing actions undertaken by NAVSEA Headquarters (as discussed in Chapter III) to the Jones model.

The final chapter will answer the primary and subsidiary questions, discuss brief managerial strategies for future reductions, identify the current position and future forecasts of NAVSEA's planned reductions, and offer recommendations for future study.

## II. DOWNSIZING CONCEPTS AND DON'S IMPACT

### A. DOWNSIZING DEFINED AND DISCUSSED

Before delving into what the Department of the Navy (DON) did in order to effect its downsizing targets, it is necessary to first recognize and then define this modern-day activity, understanding that it is not a new phenomenon.

Current terminology or phrases label the occasion of work force reductions due to economic contraction or cutback management as:

1. Reduction-in-force (RIF)
2. Build-down
3. Right-sizing
4. Demassing
5. Transition management
6. De-cruitment
7. Deorganization.<sup>2</sup>

This is not an exhaustive list. The diversity of these descriptive terms indicates that there is no universally acknowledged terminology or language to define the evolution

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<sup>2</sup> Steve W. J. Kozlowski, et al., Organizational Downsizing: Individual and Organizational Implications and Recommendations for Action, Michigan State University, June 1991, p. 1.

occurring today. "Some convergence is evidenced, however, among the organizational theory, organizational psychology, and management literature."<sup>3</sup>

This multi-faceted phenomenon called downsizing is the elimination of employment positions and "is not necessarily limited to the lowest levels of management."<sup>4</sup> A build-down can "occur by reducing work (not just employees) as well as by eliminating functions, hierarchial levels, or units" to streamline the business operations. It "does not include the discharge of individuals for cause, or individual departures via normal retirement or resignations."<sup>5</sup>

There are many organizational advantages to downsizing espoused with increasing overall effectiveness as a primary goal. Some other expected consequences are:<sup>6</sup>

<ul style="list-style-type: none"><li>*Lower overhead;</li><li>*Less bureaucracy;</li><li>*Faster decision making;</li></ul>	<ul style="list-style-type: none"><li>*Smoother communications;</li><li>*Greater entrepreneurship;</li><li>*Increases in productivity.</li></ul>
--	--

"Retrenchment and downsizing have become such pervasive and prevalent activities that theorists now regard these

---

<sup>3</sup> Ibid., p. 3.

<sup>4</sup> Ibid., p. 1.

<sup>5</sup> Wayne F. Cascio, "Downsizing: What do we know? What have we learned?," Academy of Management Executive, 1993, p. 96.

<sup>6</sup> Ibid.

processes as a normal part of the life cycle of organizations."<sup>7</sup> This life cycle of demassing consists of four phases: "creation, growth, decline, and possibly death" (of the firm).<sup>8</sup> With the advent of numerous organizational changes, many agencies begin downsizing without a plan or policy as a foundation thereby disrupting their normal life cycle. They merely react to economic pressures (the bottom line or profits) such as "global competition, technological innovation, political change, resource scarcity and shrinking revenues"<sup>9</sup> or other demands, by haphazardly implementing various cuts to obtain short-term benefits. Such impromptu actions by management disregard the massive disturbances in organizational relationships that result as a by-product of change.<sup>10</sup>

Managers have a choice to be proactive or reactive before mandatory downsizing happens in their domain. If they are attuned to their operating environment or market shifts, changes in consumer demands, funding inadequacies or decreased profits, then supervisors can formulate an advanced plan of action (proactive approach) rather than reacting with a "quick fix" when the crisis is upon them.

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<sup>7</sup> Kozlowski, op. cit., p. 12.

<sup>8</sup> Ibid.

<sup>9</sup> Ibid.

<sup>10</sup> Cascio, op. cit., p. 98.



When managers are faced with the prospects of downsizing, several personnel reduction strategies are available. One suggested remedy for easing the pain of a RIF is to include employees early in all of the planning stages of demassing rather than thrusting it upon them at a moment's notice. Allowing their inputs into eliminating billets fosters mutual understanding of the critical impacts of the downsizing and keeps communication channels open.

Other RIF strategies can be distinguished as "less intrusive" and "more intrusive." The **less intrusive reduction** strategies include: "natural attrition, reduced recruitment and accessions, and maximization of voluntary separations and early retirements." The **more intrusive reduction** tactics include involuntary separations or other direct approaches.<sup>11</sup> Such strategies can be "hiearchially arranged or sequenced with respect to their impacts on employee well-being versus short-term cost savings."<sup>12</sup>

The organizational culture or climate may play a vital role in the decision to eliminate certain positions or release targeted personnel. Culture, the "totality of what is learned by the individuals as members of society,"<sup>13</sup> in a given place

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<sup>11</sup> Kozlowski, op. cit., p. x.

<sup>12</sup> Ibid., p. viii.

<sup>13</sup> Charles Coates and Rolland J. Pellegrin, Military Sociology: A Study of American Military Institutions and Military Life, " University Park, Maryland, 1965, p. 7.

or time, includes knowledge, beliefs and customs. Research has shown that culture is an intangible asset of a firm when it is positively perceived and supported. Thus, if the military implements a RIF, not only does that "status quo" change, but the working environment becomes unstable and potentially tumultuous.

Transition management "has exploded the myth of job security, and has accelerated employee mobility...[and] fundamentally altered the terms of the psychological contract that binds workers to organizations."<sup>14</sup> The previous era of company loyalty is absent as surviving personnel now fear and distrust the leaders given excessive uncertainty over job stability. "There's no certainty in the traditional ethics of work hard, move up in the company and you get more salary and benefits."<sup>15</sup> Now there are corporate mergers to contend with thereby increasing environmental stress in the work place. "Study after study shows that following a downsizing, surviving employees become narrow-minded, self-absorbed, and risk averse. Morale sinks, productivity drops, and survivors distrust management." These adjectives form the definition of "survivors' syndrome."<sup>16</sup>

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<sup>14</sup> Cascio, op. cit., p. 103.

<sup>15</sup> Fabio Santiago, "Workers feel pressured by change," San Jose Mercury News, August 14, 1994, pp. 1pc-2pc.

<sup>16</sup> Cascio, op.cit., p. 100.

Understanding the employees who are in the "survivors' syndrome" is an important managerial function. With hiring freezes as "the first measure traditionally employed to cope with a reduction in resources, ...the most skilled will move on at greater frequency than [the] least skilled."<sup>17</sup> This is due to the lack of promotion opportunities and benefits in the midst of increased responsibilities. Thus, the survivors will be the least skilled with no managerial recourse to bring in the requisite expertise because of the freeze. The resultant increase in these employees' personal stress levels or decreased morale can not be dismissed lightly if organizational effectiveness is to be realized.

With greater emphasis on TQM in most businesses today, including the military, a key ingredient necessary to sustain TQM programs is high morale. For TQM to be effective, the employees must align themselves with management's plan towards higher quality goods and services. A disgruntled employee with low morale is NOT fully productive or concerned with TQM.<sup>18</sup>

With transition management comes the advent of greater technology and opportunities for success--and failures. With many white-collar workers eliminated during the

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<sup>17</sup> James Crawford Cox, Gramm-Rudman, Proposition 13, and Cutback Management, Thesis, Naval Postgraduate School, Monterey, CA, 1986, p. 35.

<sup>18</sup> Cascio, op. cit., p. 101.

reorganization, many line employees are expected to perform the managerial functions at the same rate of pay and use advanced technology simultaneously. Most of these line employees have little experience in setting performance goals, maintaining a departmental budget, or forecasting future requirements. The same applies to Navy personnel as the mid-grade officer and enlisted ranks have been trimmed significantly since 1990, leaving junior personnel with the equivalent challenge of rising to the occasion.

#### **B. DOWNSIZING AND THE MILITARY**

The end of the 20th century finds the United States reexamining the very purpose of its military forces and redefining the role of the nation as the world's sole superpower. At the same time, in the midst of a defense drawdown, the environment for staffing the military forces is rapidly changing: new missions, new conflicts, new people, new pressures, new mood, no money.<sup>19</sup>

Looking retrospectively at the military's downsizing efforts, "the past demobilizations were primarily concerned with the separation of volunteers or draftees" who joined the military to fight for this country engaged in war. Consequently, with the advent of peace, they were ready to return to civilian status. However, the "present all-volunteer force was not drafted, was not recruited for

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<sup>19</sup> Mark J. Eitelberg, "The All-Volunteer Force After Twenty Years," presented at the U. S. Naval Academy, Annapolis, Maryland, September 1993, p. 31.

a specific conflict," and is not necessarily eager to exit the military.<sup>20</sup>

Today's All-Volunteer Force (AVF) developed vigorously throughout the Cold War era. The military was widely seen "as having received preferential treatment during the first half of the 1980s when the annual defense budget mushroomed from \$144 billion to \$295 billion."<sup>21</sup> During this time, President Reagan was in office overseeing the Navy's build-up for a massive 600 ship Navy to patrol the high seas. This expensive expansion greatly increased the federal deficit as Congress was unable to align expenses with revenues. As a result, the Goldwater-Nichols Defense Reorganization Act of 1986 and the Gramm-Rudman-Hollings Bills (1985 and 1987) were legislated to force Congress to manage the federal budget within specified spending targets with the ultimate goal of a zero deficit by FY91.<sup>22</sup>

Goldwater-Nichols act led to military jointness or consolidation of many like functions to generate fiscal savings such as: commissaries; finance systems; procurement processes; research and development functions; and maintenance operations.<sup>23</sup>

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<sup>20</sup> Kozlowski, loc. cit.

<sup>21</sup> Eitelberg, op. cit., p. 25.

<sup>22</sup> Allen Schick, The Capacity to Budget, Washington, D.C., 1990, pp. 4-6.

<sup>23</sup> Eitelberg, op. cit., p. 26.

Gramm-Rudman specified that when implementing sequestration (deficit reduction), the President must trim "each program, project, or activity (PPA) within a budget account by the same percentage." Also, all PPAs appropriated each year must be specified in the annual appropriations bill.<sup>24</sup> This precludes any accounting maneuvers by DOD to hide PPAs from Congressional cuts. Only eligible non-defense and defense accounts (approximately 30 percent of the federal budget) are candidates for sequestration so drastic fiscal reductions carry significant weight.

Thus, the rightsizing of the military actually started with the Reagan military buildup that helped bankrupt the former Soviet Union, which ultimately ended the Cold War.<sup>25</sup> With the collapse of the Soviet Union, the primary military threat was removed and the American taxpayer began to expect a decrease in defense spending and consequently in the federal deficit. By 1987, the downsizing "was based much on budgetary factors as on the diminishing risk of global conflict."<sup>26</sup>

The Navy's 600 ship fleet was a primary target in the Secretary of Defense's infrastructure reduction plans in the

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<sup>24</sup> Cox, op. cit., pp. 13-15.

<sup>25</sup> Ernest Blazer, "The Incredible Shrinking Navy," Navy Times, September 19, 1994, p. 13.

<sup>26</sup> Eitelberg, op. cit., p. 8.

mid-eighties. Several cutbacks were identified to include the following:<sup>27</sup>

- The fleet would be reduced to 580 ships;
- Poseidon submarines were scheduled for retirement in conjunction with the arrival of new Trident subs;
- A scheduled nuclear submarine overhaul was eliminated as the vessel was retired;
- Sixteen frigates were marked for retirement;
- The 14th Navy air wing was cut.

Furthermore, "the appropriate mix of ships within the fleet was not achieved and the degree of fleet modernization desired was sacrificed." Some 9,600 personnel cuts accompanied these force reductions, too, in anticipation of reducing 1989s manpower expenditures in the budget. Many program and weapon system terminations were slated for the 1989 budget to include the A-6F aircraft and two torpedoes: the MK-48 and MK-50.<sup>28</sup>

### C. NAVY'S INFRASTRUCTURE POST 1990

Apart from questions over hardware and money, there is the question of just what the nation expects the Navy and its people to do in the post-Cold War world.<sup>29</sup>

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<sup>27</sup> Jones and Bixler, op. cit, pp. 134-135.

<sup>28</sup> Ibid.

<sup>29</sup> Blazer, loc. cit.

In a news article called "The Incredible Shrinking Navy," the announcement is made that "for the first time in 55 years, the United States Navy will have fewer than 400 ships" once the USS Dale is retired on September 22, 1994.<sup>30</sup> This is the result of numerous cutbacks and fiscal limitations imposed by Congress on the Department of the Navy (DON).

During September 1993, the Department of Defense (DoD) announced its "Bottom-Up Review" as the plan for America's future. This doctrine serves as the Pentagon's "official blueprint for strategy and force structure." President Clinton and "his first defense secretary, Les Aspin, promised the Bottom-Up Review would provide the basis for the first post Cold-War consensus about the size, shape and costs of the military."<sup>31</sup> For the Navy, this plan calls for a twelve carrier fleet with 100 percent capability to fight two wars at the same time. There was (and continues to be) much discussion over the validity of this plan primarily due to cost concerns. "The one issue on which everyone agrees is that there is too little money in the budgets planned for the next five years to pay for even the smaller force [President] Clinton proposes."<sup>32</sup>

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<sup>30</sup> Ibid.

<sup>31</sup> William Matthews, "Leaks in the Bottom-Up," Navy Times, August 1, 1994, p. 30.

<sup>32</sup> Ibid.



DoD figures that the subsequent annual budgets through 1999 are short by an estimated \$11 billion if the Bottom-Up Review is to be funded in full and will exceed \$37 billion if military and civilian pay raises are authorized by Congress. Other non-DoD analysts estimate a \$100 billion shortfall. The Navy adamantly maintains that it will suffer a loss of \$14 billion not to mention the lack of investment in new weapon systems or surface platforms. "In 1995, for example, the administration proposes to build six Navy ships, fewer than a third of the 20 bought in 1990."<sup>33</sup>

Defense Secretary William Perry supports the Administration's Bottom-Up Review, citing that the downsizing enables the Navy to select the best from unused equipment, given fewer sailors who need it. He calls this salvaging a "modernization effect" that internalizes a "procurement holiday" in the overall plan. Nonetheless, the Congressional Budget Office (CBO) concurs with critics that more "ships, planes and tanks than are included in the administration's procurement plan would be needed to sustain its forces in a steady state."<sup>34</sup>

The Pentagon initially maintains that recoupment of monies from base closures is the best way to make the Bottom-Up Review successful as documented by the two rounds of base

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<sup>33</sup> Ibid.

<sup>34</sup> Ibid, p. 31.

closures which took place in 1990 and 1993. The Navy, fully supportive, "targeted 23 major bases to shut and 25 minor ones to close or be realigned" beyond 1993. It plans to use the savings to cover the costs of "building three Arleigh Burke-class destroyers a year, a new LPD-17 class of amphibious assault ships to replace three classes of amphibious ships and a new attack submarine."<sup>35</sup>

Now, there is a lack of conviction in the Pentagon's belief. What was once viewed as the key ingredient in obtaining savings under the Bottom-Up Review by the Administration now makes Pentagon officials anxious to delay any closures. It is not "politically correct" or career enhancing to drastically handicap numerous military communities with base closures at one time--especially with federal elections on the 1996 horizon. The Navy insists upon their closures as there is no other way to accumulate the economic resources needed to maintain an infrastructure no longer needed. In any event, there are proposals on the floor to change the law in order to delay the 1995 base closures until 1997.<sup>36</sup>

Subsequently, without any recoupment of funds, the Navy realizes that it "would have to cut force structure below the

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<sup>35</sup> Ibid, p. 10.

<sup>36</sup> Ibid.

levels set" equating to 16 fewer ships than the 346 approved. Assistant Defense Secretary Edward Warner purports that a 330-ship Navy is "able to sustain the overseas presence" required, given that the plan is accommodating to changing missions.<sup>37</sup> Adm. Jeremy (Mike) Boorda, Chief of Naval Operations (CNO), states that he wants the drawdown to stop at 346 ships despite congressional plans of 330 or less. He says that "we have not had this few ships in the U.S. Navy since 1939."<sup>38</sup>

The Pentagon continues planning its 25 percent military reduction slated between 1990 and 1995.<sup>39</sup> In the 1991 Defense Authorization Bill, Congress set the prioritized mechanisms for demassing as:

1. Reduction in new accessions
2. Reductions in retirement eligible members
3. Control entry into the career force.

These targets applied to officers and enlisted personnel in order to meet annual end-strengths. Each fiscal year, "Congress appropriates a military manpower budget for the

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<sup>37</sup> Ibid, p. 31.

<sup>38</sup> Blazer, loc. cit.

<sup>39</sup> James Kitfield, "Blacks in the Military," Government Executive, February 1994, p. 31.

Navy, and the Office of the Secretary of Defense specifies a limit on the total number of personnel by grade."<sup>40</sup>

Given this mission, the Navy established its drawdown philosophy after considering the environmental elements that could affect any planned actions. In 1989, there was a stable environment presumed and relatively steady retention rates observed. However, as time passed, retention increased to a post-Vietnam-era high, possibly due to a sluggish economy. As a result, mandatory Congressional end strengths cuts were dictated. Keeping forefront the pledges to preserve the mid-career force by not involuntarily separating them and to continue providing all pay entitlement including incentive programs directed at retention, the Navy promulgated its strategies to maintain its organizational readiness.<sup>41</sup>

One of the first drawdown strategies dictated that personnel reductions be tied to corresponding cuts in the infrastructure--ships, bases, and squadrons. This matching of reductions assured a balance of billets and ratings to prevent keeping overmanned ratings at the expense of critical ones and assisted in meeting required end-strengths.

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<sup>40</sup> R. L. Boller, R. K. Lehto and J. Offir, "Design and Use of A Force Structure Simulation Model," Time Studies, 1978, p. 175.

<sup>41</sup> Data obtained via BUPERS, PERS 2, presentation slides, author unknown, on March 24, 1994 at Naval Postgraduate School (NPS).

The number of enlisted accessions from FY89 to FY94 also portrays the severity of the Navy's RIF as shown below.<sup>45</sup>

1989	94,674
1990	73,893
1991	71,108
1992	59,433
1993	62,368
1994	55,700

In a mere six years, enlisted accessions dropped 38,974. From 1990 to 1993, the period that NAVSEA Headquarters implements its transition management strategies, the drop is 11,525.

Figure 2 depicts the historical relationship between the Navy's number of ships and total active duty end-strength through 1999 forecasts. Over time, the number of ships drop rapidly in relation to the number of personnel starting with slightly less than 1,300 vessels and 1,200,00 people in 1946 to slightly more than 400 ships and 400,000 sailors in 1993. This represents approximately a 70 percent cut in ship quantity and a 67 percent slash in military end strength.

Actual statistics for the numbers of ships, active duty Navy staff, and civilians from FY89 to FY94 with projections through FY99 are displayed in Table 1.

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<sup>45</sup> Ibid.

Another strategy, pertaining to overmanned year groups, dictates that, as senior paygrades were reduced, so were junior billets at the same shrinkage rate. Keeping the best possible experience mix was the major emphasis in these initiatives.<sup>42</sup>

During July 1994, RADM Henry C. McKinney, Deputy Chief of Naval Personnel, communicated various Navy manpower strategies. Some of them were:

1. By 1999 the active duty Navy will be reduced by 170,000 enlisted, 20,000 officers, 200 ships and 1,500 aircraft.
2. The Navy will provide the maximum possible stability for careerists, including no involuntary, mid-career separations.
3. Maintain high standards for quality of life for Navy families.<sup>43</sup>

The Navy Drawdown Profile from FY 89 to FY 99 is shown in Figure 1.<sup>44</sup> From this diagram, the Navy shows a steady personnel decline from a total strength of 592,700 in FY89 to 510,900 in FY93 with few numbers in all three categories-- Officers, Enlisted and Midshipmen (Midn). There are 150,600 unreplaced reductions anticipated between FY89-95.

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<sup>42</sup> Ibid.

<sup>43</sup> The Graduate Newsletter, National Naval Officers Association, Monterey Chapter, Naval Postgraduate School, Monterey, California, September 1994, p. 1.

<sup>44</sup> Data obtained via BUPERS, PERS 2, lecture and presentation, author unknown, on March 24, 1994 at NPS.

# NAVY DRAWDOWN PROFILE

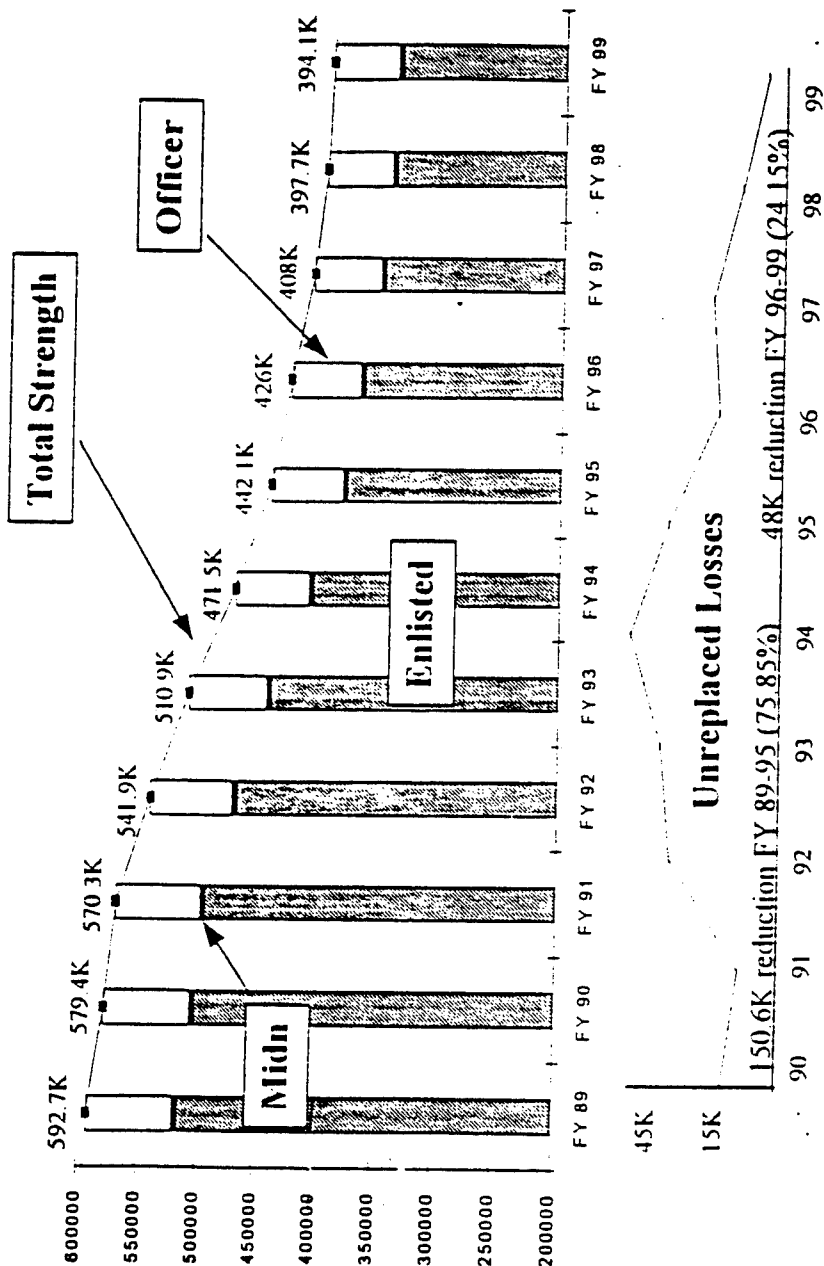


Figure 1. Navy Drawdown Profile

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<sup>45</sup> Ibid.



# TOTAL ACTIVE DUTY NAVY END STRENGTH vs. NUMBER OF SHIPS

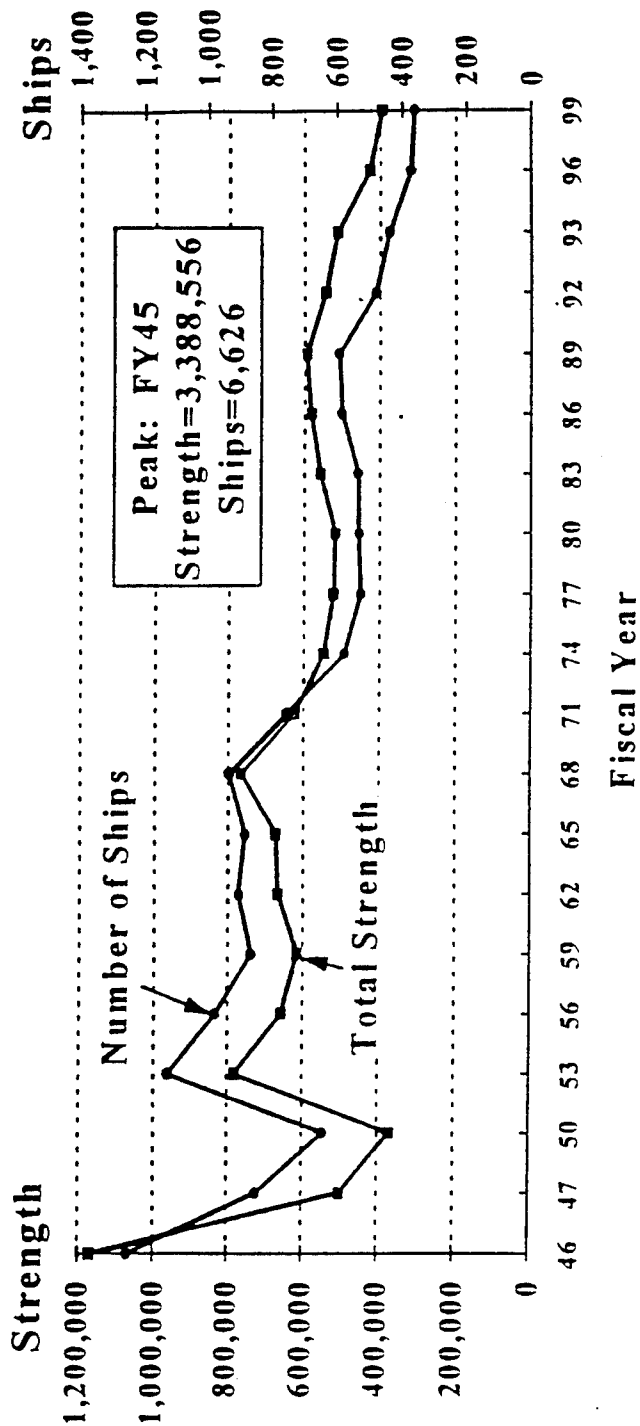


Figure 2. Total Active Duty Navy End Strength vs Number of Ships

**TABLE 1. FY89 TO FY94 SHIPS AND PERSONNEL  
(NAVY AND CIVILIAN) STATISTICS**

\\ \\	FY89	FY90	FY91	FY92	FY93	FY94	FY95	FY96	FY97	FY98	FY99
#SHIPS	566	546	526	466	436	374	367	367	363	360	360
#NAVY	593K	580K	570K	542K	510K	472K	442K	426K	408K	398K	394K
#CIVS	332K	321K	310K	293K	267K	253K	230K	220K	209K	207K	202K

Note: Data obtained via BUPERS, PERS 2, presentation slides, author unknown, on March 24, 1994 at NPS. The numbers for Navy and civilian personnel end strengths are in thousands.

Over the next several years, the fleet of tenders will decommission 16 tenders leaving only four ships that will be homeported in Norfolk, Guam, Italy and Bahrain.<sup>46</sup> With these and other retirements of naval vessels, the downsizing result is questionable productivity levels from those who survived as well as doubts about a traditionally strong U.S. Navy's readiness. There are also tough decisions to be made regarding what the fleet can or will be able to do while maintaining the six-months shore rotation guarantee made to sailors.

#### **D. THE NAVY'S DOWNSIZING**

The downsizing of the U.S. military, and in particular the Navy, is a phenomenon that affects all of society--from the

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<sup>46</sup> John Burlage, "Tender Mercies," Navy Times, August 15, 1994, p. 12.

remaining service members and military commands, their families and friends, to the general taxpayer, especially those located close to military installations. Such evidence is portrayed in the media each time the BRAC Commission meets to discuss possible military base closures and when the decision is actually made to close them. The effects of BRAC on NAVSEA is vividly depicted in Figure 3. From this portrayal, 34 of 70 activities are affected with 4 closures, 10 disestablishments, 18 realignments and 2 transfers. The East Coast operations are hurt the most.

Every instance of another base closure approved by BRAC means, at a minimum, a severe decline in the local economy of the base identified due to increased unemployment. These taxpayers rely on the business that service men and women generate, and, in return, much goodwill is generated for support of the military institution.

The military drawdown carries a serious message to society: "the military is no longer as important as it once was, and those who join may not get the same rewards, recognition, status, or security enjoyed by their predecessors."<sup>47</sup> What once was an institution renowned for job training and a place to make "men of boys," is now in the throes of uncertainty and instability. "If the military downsizes below a certain 'critical mass,' it may become

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<sup>47</sup> Eitelberg, op. cit., p. 23.

# NAVSEA ACTIVITIES AFFECTED BY BRAC ACTIONS

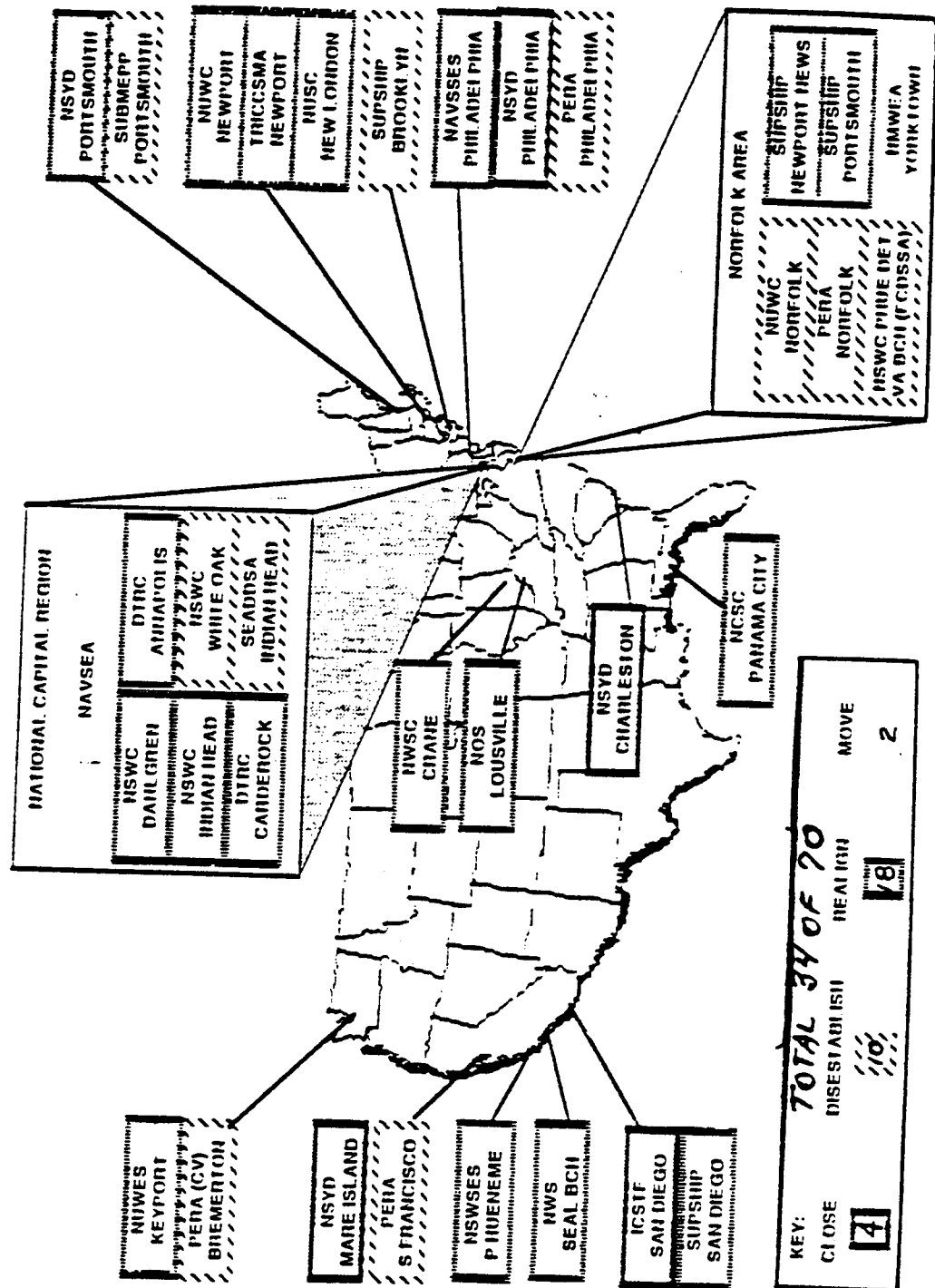


Figure 3. NAVSEA Activities Affected by BRAC Actions

invisible in the minds of a large segment of the population--potential recruits and their parents."<sup>48</sup>

Also, the military faces an uphill battle with Congress every time the defense budget is slashed. If the services become "invisible" in the minds of the voting taxpayers, then it will be very difficult for elected Congress members to approve spending their constituents' tax dollars for a military no one is aware of or supports. The future defense requirements become neglected, leaving a country in a state of dangerous complacency. This is one more cause to establish a long-term national military strategy.

Congressional fiscal restraints have been imposed without much apparent careful analysis of the long-term repercussions. The number of ships that the Navy maintains is not as important as is the type of ships needed for the mission--which has yet to be defined due to the pending release of the Navy's **Forward from the Sea** doctrine.<sup>49</sup> Without a National Defense Strategy clarified, the Navy is being mandated to reduce its entire infrastructure further in conjunction with patrolling the high seas for various regional conflicts and humanitarian causes.

The people who remain in the Navy, labeled survivors, receive second-place attention compared to the statistics of

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<sup>48</sup> Ibid., p. 22.

<sup>49</sup> Blazer, loc. cit.

the downsizing, referred to as leavers. The leavers receive paid bonuses and numerous benefits to exit, regardless if some of them planned to leave voluntarily. When the Navy reduces its work force, "the survivors are usually seen as winners and the casualties as losers; but survivors are often casualties of another sort."<sup>50</sup> Looking at the millions of dollars the Navy spends on the leavers, there is little or no compensation given to the survivors who fulfill the same missions with decreased resources. This disparate treatment of survivors and the lack of resources must be reconciled if the Navy is to continue its proud tradition of providing ultimate defense readiness. Such a feat requires careful consideration of actions before they are taken based on a clear set of objectives.

#### **E. NAVAL SEA SYSTEMS COMMAND OVERVIEW**

NAVAL SEA SYSTEMS COMMAND (NAVSEA) is based in Arlington, Virginia, on the edge of Washington, D.C. As the largest Naval shore installation, their mission to support the fleet is gravely impacted when reductions occur. NAVSEA is a multi-dimensional activity with many responsibilities. Figure 4 identifies the major departments in the self-described NAVSEA "corporation" as: ASN PEOs; Headquarters; Warfare Centers;

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<sup>50</sup> Eitelberg, loc. cit.

# NAVSEA CORPORATE AREAS AND FUNCTIONS

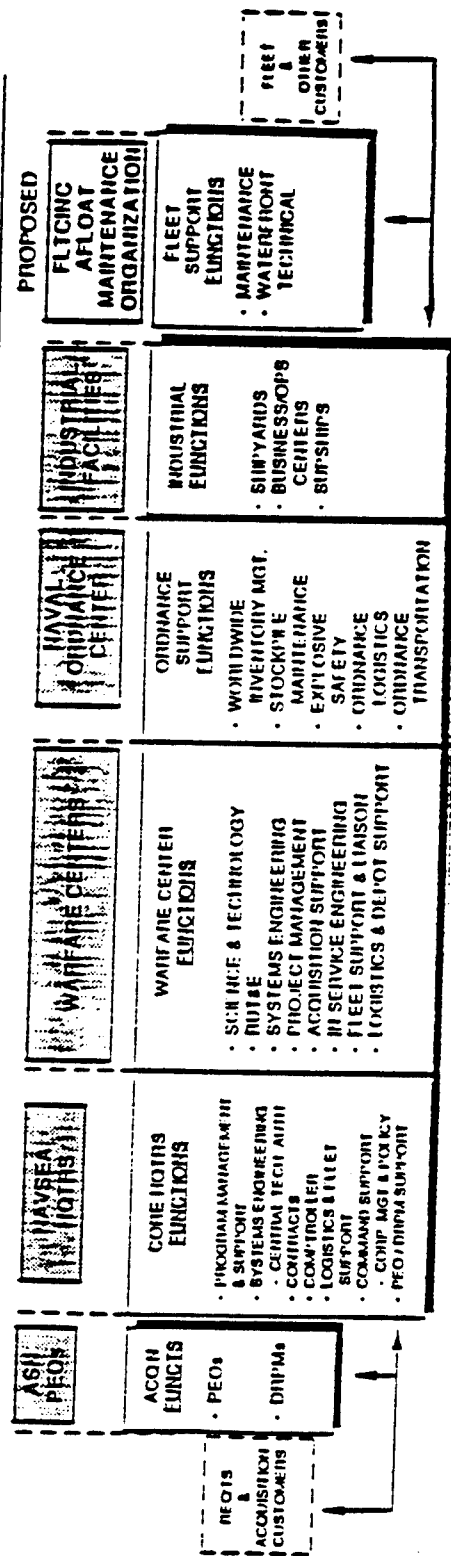


Figure 4. NAVSEA Corporate Areas and Functions

Naval Ordnance Center; Industrial Facilities; Fleet Commander in Chief (FLTCINC) Afloat Maintenance Organization (proposed).

Each department has several functions specified; however, the primary corporate functions are elaborated more succinctly in Figure 5. These 22 "Functions and Competencies" are dispersed among all of NAVSEA's activities. The ones pertaining to Headquarters will be discussed further in Chapter III.

When considering the overall impact of the DON's force reductions in relation to NAVSEA, Figure 6 helps to get a perspective of the direct effect. From this diagram of the "Force Structure & NAVSEA Manpower Changes," from FY89 through the end of the century's projections, NAVSEA's civilian personnel reductions outpace the required military manpower reductions. The Navy's Total Obligation Authority (TOA) almost matches the decline in the number of battleforce ships during the years identified.

Looking at the three-year window examined in this thesis (FY90-FY93), overall NAVSEA's civilian force is reduced approximately 19 percent to the Navy's 23 percent reductions in its Battleforce Ships and 22 percent decrease in TOA. This suggests a direct parallel between the Navy's cutbacks to NAVSEA's overall reductions.

How NAVSEA Headquarters accomplishes its downsizing edicts is presented in Chapter III.





# **Functions & Competencies: Corporate**

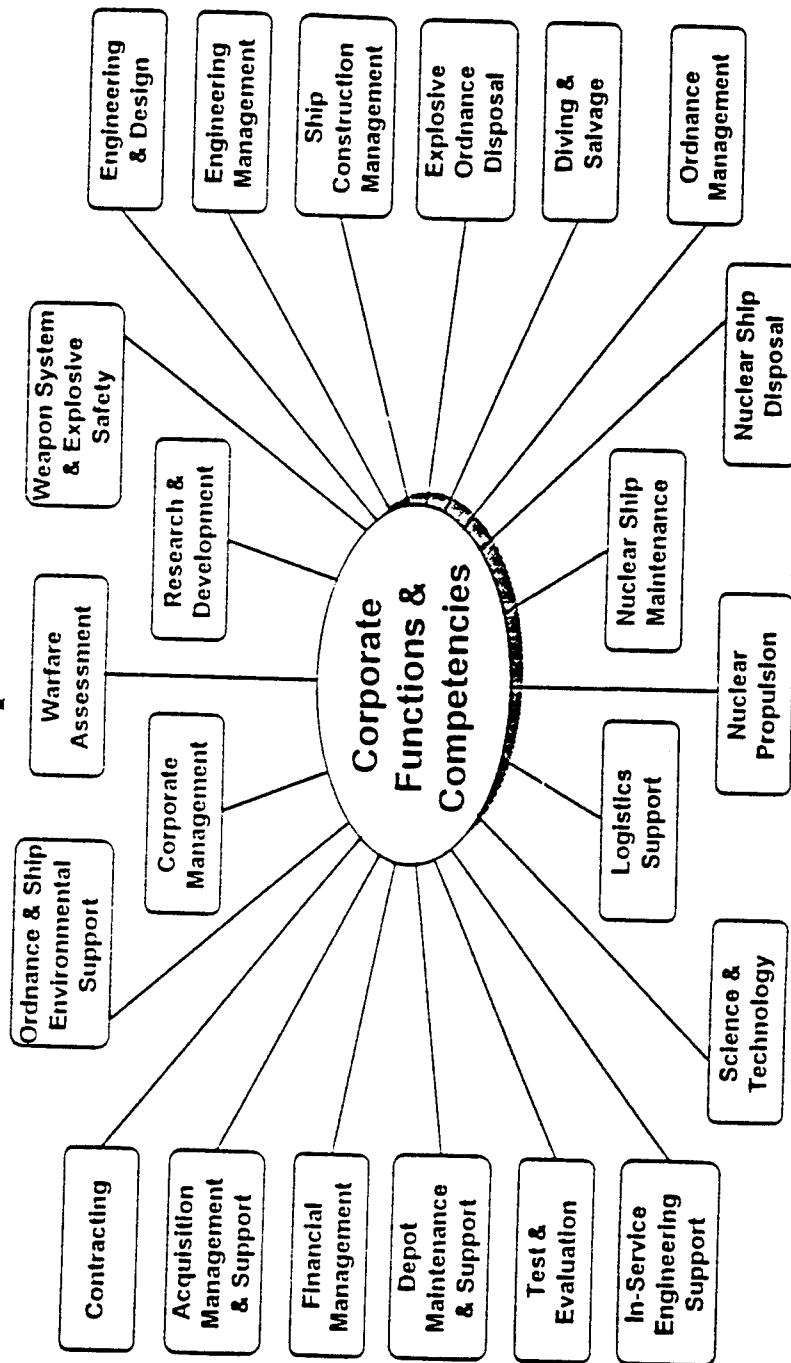


Figure 5. NAVSEA Corporate's Functions and Competencies

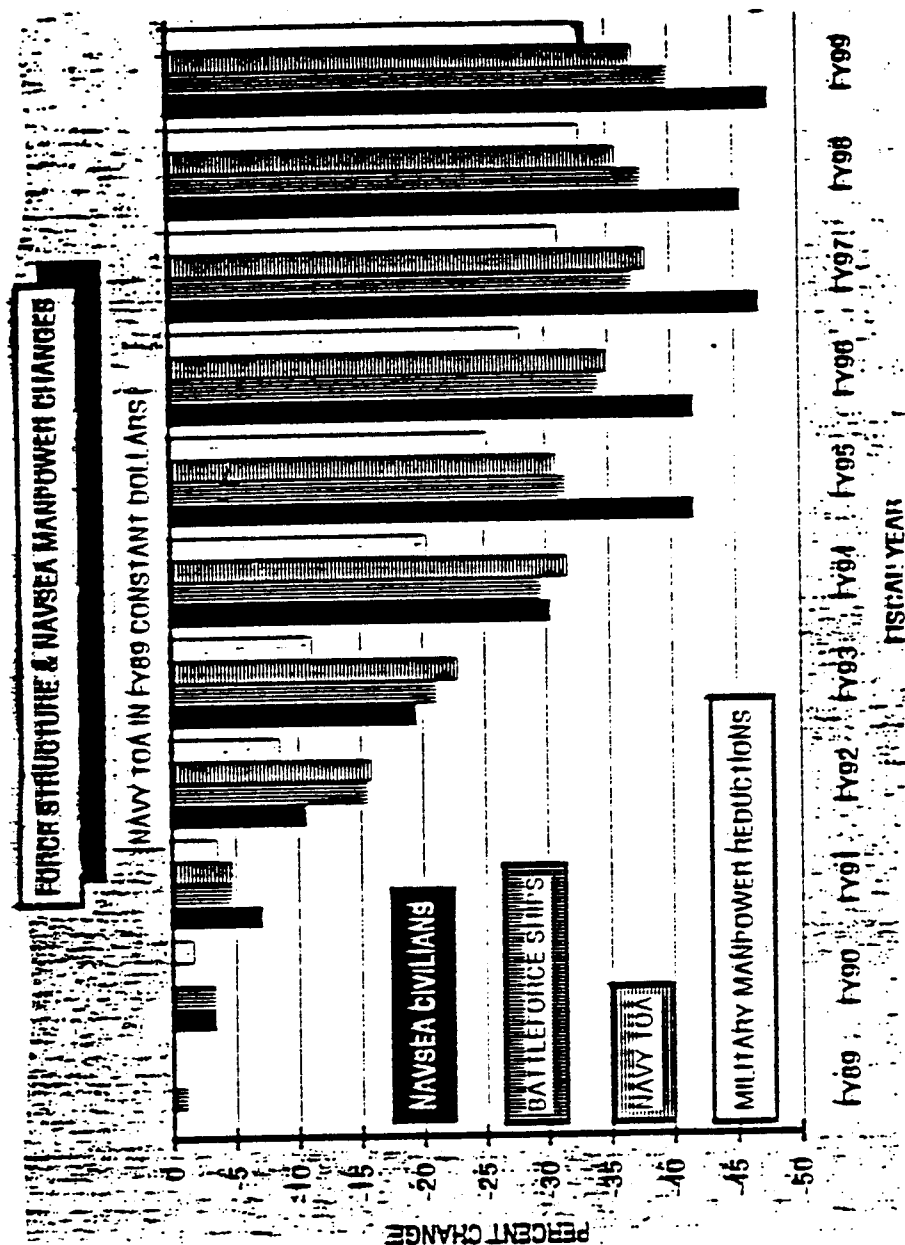


Figure 6. Force Structure and NAVSEA Manpower Changes

### III. WHAT DID NAVSEA DO?

#### A. EXTERNAL ENVIRONMENT

Beginning in the summer of 1991, NAVSEA recognized the need to be proactive in preparing for its future endeavors given the external organization climate that enveloped and impacted upon it.

With the end of the Cold War era well publicized, Congress began looking for means to reduce the Federal deficit. Due to the shift from global war to regional threats, Congress felt justified for imposing greater fiscal restraints upon the military.<sup>51</sup> There was no disputing the growth of smaller centralized concerns such as observed in Kuwait and Somalia. With the DoD consuming more than 18 percent (approximately \$271 billion) in FY89 of the Federal budget and two-thirds of discretionary expenditures, Congress had an obvious target.

Consequently, under pressure to adhere to the Gram-Rudman-Hollings Act (1986 and 1988), the Goldwater-Nichols Act and the Budget Enforcement Acts of 1985 and 1987, Congress called for massive DoD reductions and program consolidations and/or eliminations. Jointness became a key "buzzword" to the military leaders in the midst of this mandated drawdown.

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<sup>51</sup> Strategic Transition Plan (STP) Draft Working Papers, author unknown, Naval Sea Systems Command, March 19, 1993, p. 5.

The post cold-war downsizing edicts pronounced by Congress necessitated reductions in:

1. Personnel--officers and enlisted--from all military branches;
2. The infrastructure--military bases and facilities;
3. The U.S. Naval Fleet;
4. Ship maintenance and modernization;
5. New shipbuilding contracts.<sup>52</sup>

While all five had an impact upon NAVSEA, it is the direct consequences of the last three that produced the greatest managerial nightmare. NAVSEA's entire organization revolves around servicing the Naval Fleet to include repairs, maintenance, and potential new ships' design and engineering. Although this thesis is focused on the Headquarters domain, this particular impact must be underscored.

Additional external events occurred around December 1991 creating concerns for NAVSEA. They are:

1. The new Department of the Navy Review Commission (DONRC) formed to study DON's downsizing to maximize efficiency;
2. Several OPNAV Reorganizational Teams were created to address the forced drawdown and joint efforts now and in the future;
3. The Deputy of Defense called for "reduced presence in the National Capitol Region (NCR) as part of the streamlining efforts."<sup>53</sup>

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<sup>52</sup> STP, p. 5.

<sup>53</sup> Ibid.

Whenever the Navy is tasked to reduce its force presence (especially in the Washington, D.C. area) or decrease its fleet, NAVSEA is directly affected as the largest naval shore command employing thousands of military and DoD employees. Knowing that NAVSEA's hierarchial chain of command flows from the Commander-in-Chief to the CNO and how the CNO's budget grows with any recoupment of NAVSEA's OM&N funds, provides a richer appreciation for the serious implications of these external forces upon NAVSEA.

## **B. INTERNAL DYNAMICS**

NAVSEA recognized that as a "corporation," it was going to face increased demands in the future from a myriad of sources and wanted to be proactive in its preparation. Thus, it established an Executive Steering Group (ESG) to ascertain the most productive route for NAVSEA to travel to maintain its efficiency. This ESG reviewed the existing organizational structure and missions as well as all pertinent business activities and analyzed the inherent culture. The process of how NAVSEA conducts its business was studied in terms of what they do, how they do it, and the customers involved.

The master plan for downsizing NAVSEA based on their initial observations and research is outlined in Figure 7. These stages are discussed in the following sections with specific Headquarters' actions or strategies highlighted where feasible.

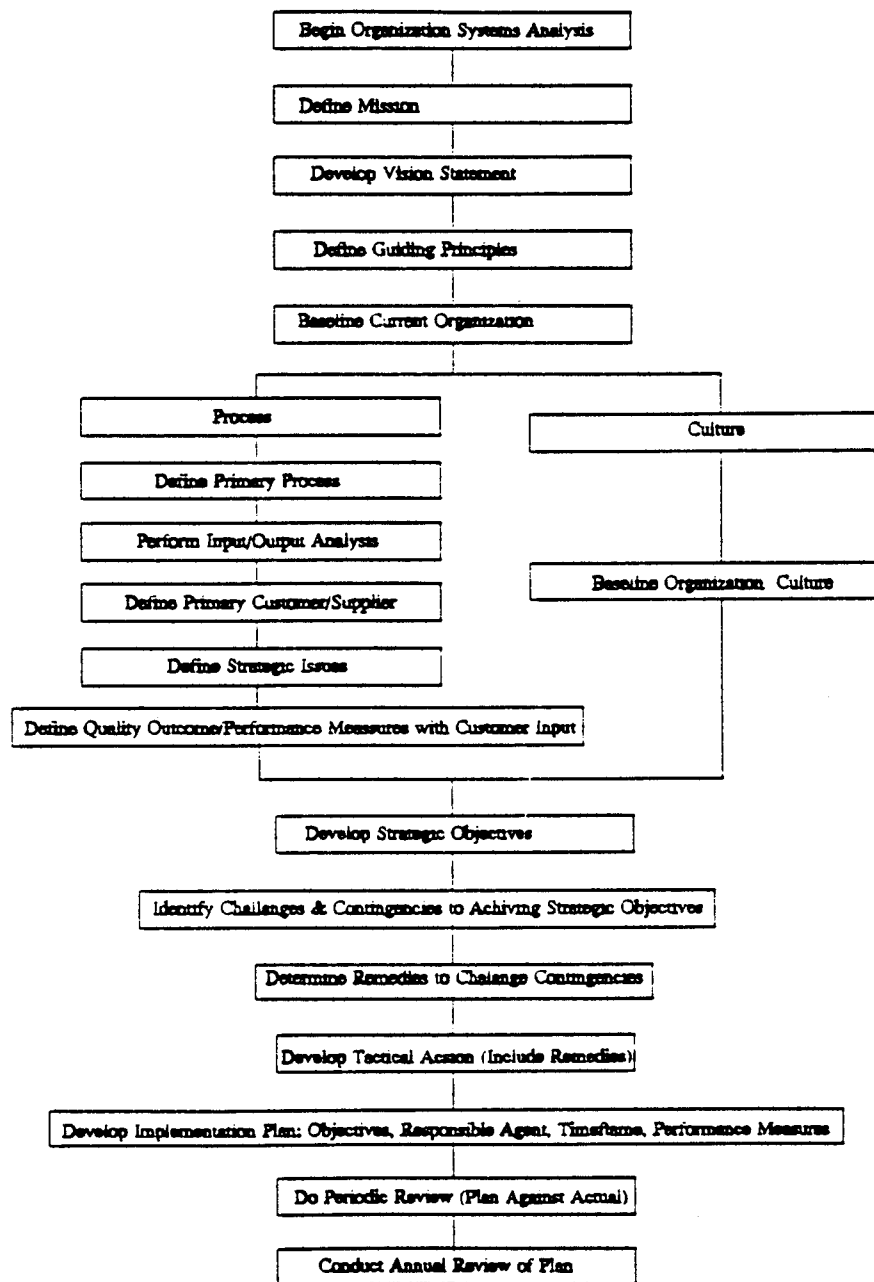


Figure 7. Master Plan for downsizing NAVSEA

The ESG decided that new strategic objectives were needed and that they should identify possible contingencies or resistance to implementing the new objectives.<sup>54</sup> Thus, when NAVSEA received a request in December 1991 from CNO to "explore restructuring ideas to support the Fleet and reduce costs,"<sup>55</sup> it was undaunted. Accepting this challenge, NAVSEA redirected the ongoing organizational evaluation by ESG towards developing a plan of action. Their efforts yielded a plan of action and milestones (POA&M) with strategies, tactics, remedies, and timeframes specified. This plan became known as the **Strategic Transition Plan (STP)** and provided NAVSEA a "roadmap for achieving the command's vision of the future."<sup>56</sup> This overall plan concentrated much attention on maintaining or improving customer support and, where possible, improving the employees' work environment and job satisfaction.

### C. THE STRATEGIC PLAN

The STP reflected the wisdom of Total Quality Leadership (TQL) by incorporating a new mission statement, portraying NAVSEA's vision of tomorrow and formulating "Guiding Principles" that would govern its method of operations.

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<sup>54</sup> Ibid., p. 2

<sup>55</sup> Ibid., p 5.

<sup>56</sup> Ibid., p.2.

NAVSEA believes "these statements are important elements to provide focus and realign the future organization."<sup>57</sup> The mission statement begins with the word "our," which supports the TQL philosophy of involving the employee in the organization so they feel a sense of ownership and responsibility. NAVSEA's new mission statement reads as follows:

Our mission is to transform military requirements into naval capabilities through research, development, engineering, design, acquisition, modernization, maintenance and logistics support of effective ships, systems and munitions. This enables our sailors and marines to conduct prompt and sustained worldwide maritime operations.<sup>58</sup>

Once again, the effects of naval fleet reductions on NAVSEA is readily apparent as the entire mission relates to fleet support.

The vision statement in the STP "outlines the desired future outcome...how it should be viewed by its customers and its employees and communicates a common direction to its people."<sup>59</sup> NAVSEA states: "Our vision is a top-notch team of NAVSEA activities which has the full support and confidence of our customers and a deserved reputation for excellence."<sup>60</sup> This concern for its customer base in lieu of imminent

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<sup>57</sup> Ibid., p. 3.

<sup>58</sup> Ibid.

<sup>59</sup> Ibid.

<sup>60</sup> Ibid.



reductions that will inevitably provide less services is admirable in addition to more proof of the TQL theory in practice.

Concurrently, the ESG provided eight "Guiding Principles" to enlighten the lower echelon staff while committing senior management to the ideals set forth. Also, the principles related their daily work efforts to upholding the Navy's mission. They are depicted in Table 2.

**TABLE 2. "GUIDING PRINCIPLES"**

Provide the highest quality ships, systems and munitions which are safe, affordable, supportable and delivered on schedule
Listen to our customers and base decisions on best available information with full consideration of their impact on all concerned
Treat people with courtesy and respect, provide a safe and efficient work environment, foster equal opportunity and recognize noteworthy contributions
Build and sustain relationships based on competence, teamwork, career development and the highest standards of integrity
Develop and maintain effective relationships with contractors by dealing in an open, fair and cooperative manner consistent with law, regulation and public trust
Ensure effective and responsible use of people, money, facilities, equipment and time
Conduct all activities in an environmentally responsible manner
Achieve total quality through continuous improvement of processes and products

Note: Data obtained from Strategic Transition Plan, p. 4.

NAVSEA's philosophy for restructuring stems from the logic that "workload-driven organizations which perform similar functions...are more flexible in reacting to changing business conditions."<sup>61</sup> As a result, the STP calls for realigning Headquarters' core functions, shifting of some non-core functions to field activities, and completely discontinuing certain other functions. Further internal review revealed that NAVSEA HQ's would be greatly strengthened by specifying the chain of command's reporting authority and working relationships amongst PEOs and DRPMs and HQ's personnel.

Headquarters' functional organizations, Program Executive Officers (PEOs) and Direct Reporting Manager (DRPMs) as of early FY93 are depicted in Figure 8. Note that the numbers in parentheses represents the military/civilian employee ratio. For example, Headquarters' overall employee composition reflects 413 military and 4,212 civilian staff (413/4,212).

Figure 9 portrays Headquarters' 16 diverse Functions and six Competencies in greater detail.<sup>62</sup> Of those shown, acquisition management support, contracting, engineering and

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<sup>61</sup> Ibid., p. 10.

<sup>62</sup> Naval Sea Systems Command, "Ships - Submarines - Weapon/Combat Systems, Supporting the Fleet of the 1990s, Acquiring the fleet of 2010," author unknown, presentation given November 24, 1993.



# **NAVAL SEA SYSTEMS COMMAND HEADQUARTERS (DEC '92)**

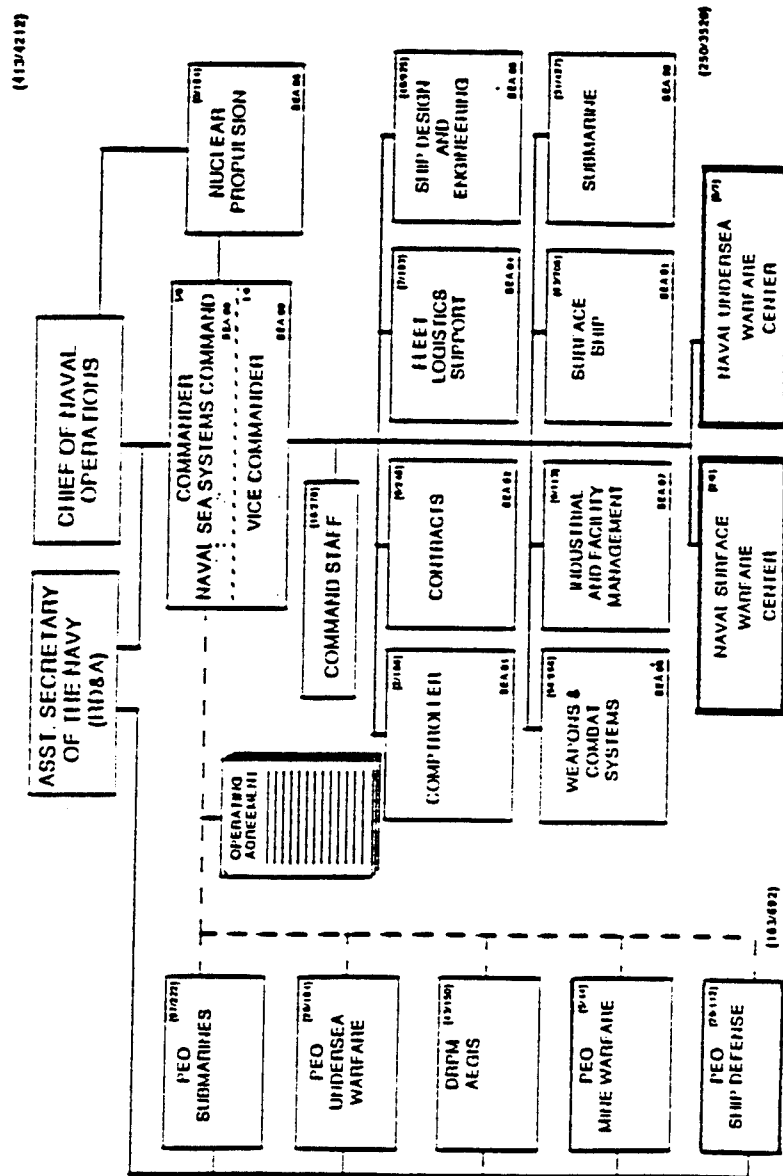


Figure 8. Naval Sea Systems Command-Headquarters as of FY93



# Functions & Competencies: Headquarters

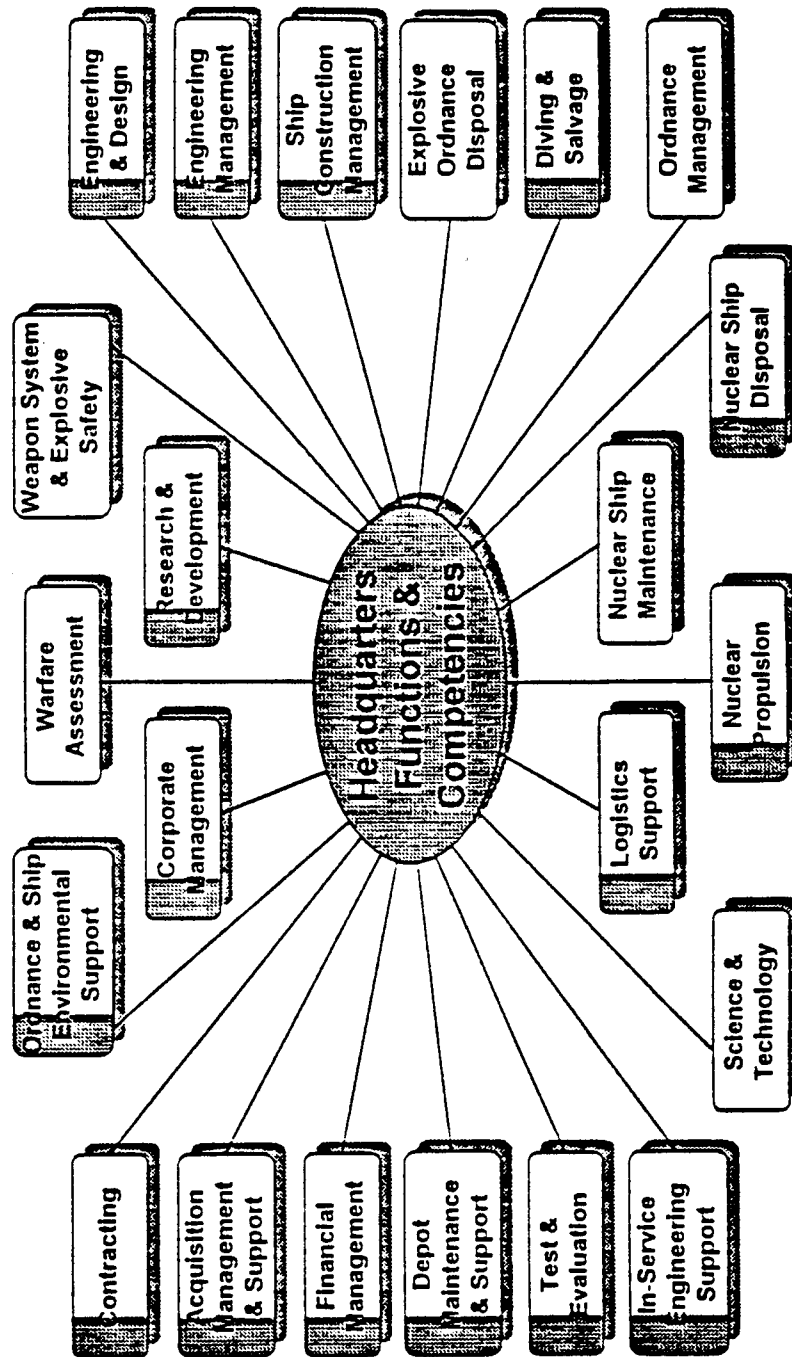


Figure 9. Functions and Competencies: Headquarters

design, financial management and corporate management are the main functions.<sup>63</sup>

Furthermore, the STP divides the functions into four aggregate categories, as depicted in Figure 10:

- Headquarters' "core"
- Research and Development and Systems Engineering
- Ordnance Support
- Afloat Maintenance Organization.<sup>64</sup>

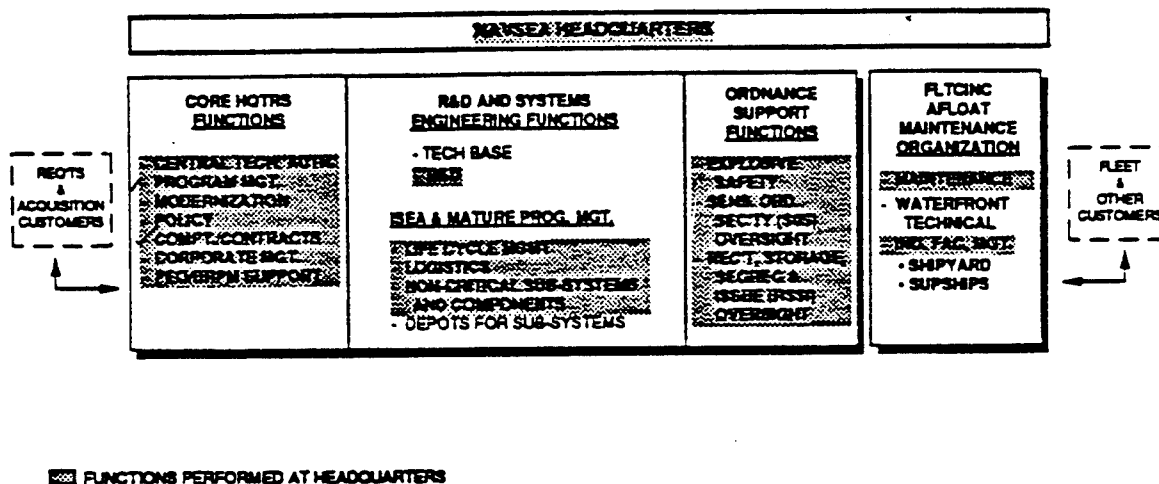


Figure 10. Current Functional Alignment of NAVSEA Headquarters

<sup>63</sup> Commander, Naval Sea Systems, letter 1200, OPR:09B, Serial 09B/322, November 09, 1993, p. 20.

<sup>64</sup> STP, p. 15.

Headquarters' "core" functions warrants elaboration, as they are the most affected by DON's restructuring effort. Prior to any realignment, the "core" responsibilities include:

- A Central Technical Authority
- Program Management
- Modernization
- Policy
- Comptroller/Contracts
- Corporate Management
- PEO/DRPM Support

The "core's" end-products are part of the Naval inventory of vessels: Aircraft Carriers, Cruisers and Destroyers; Submarines; Amphibious Assault Ships; Sealift, Mine Warfare and Special Mission Crafts. Additional "core" services are rendered for: Surface, Submarine and Mine Warfare Weapons; combat systems and expendable ordnance. Research and development, purchasing, and life cycle support are also provided by Headquarters.<sup>65</sup>

The STP is predicated on "business assumptions" determined for FY95. These assumptions lay the foundation for the drawdown decisions to be made henceforth. There are nine

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<sup>65</sup> "Restructuring NAVSEA Headquarters - Functions and Programs," Briefing Material for Maintenance Support Quality Management Board, obtained from NAVSEA 09B, author unknown, Naval Sea Systems Command Washington, November 18, 1993, p. 7.

assumptions specified; however, only the six in Table 3 pertain to Headquarters.

**TABLE 3. NAVSEA BUSINESS ASSUMPTIONS WITH RESPECT TO HEADQUARTERS**

1. Manpower resources will be allocated to valid program requirements (funding and operational need); lesser programs may be consolidated or canceled. Valid programs will decrease by less than 30 percent by FY95
2. Acquisition program execution responsibility by program managers will be more focused (in SYSCOM or PEO/DRPM); Life cycle management responsibility will be accomplished in the SYSCOM
3. Headquarters emphasis will be acquisition program management. Remaining functions (logistics, engineering and fleet support) may be done in the field
4. Technical authority retained at Headquarters. Top-level systems engineering will be headquarters emphasis. Remaining engineering may be done in the field
5. Declining personnel and financial resources will encourage SYSCOM's evolution to smaller matrix support organizations for SYSCOM and PEO/DRPM acquisition management
6. Consequences of personnel funding restrictions (hiring freeze/RIF/random attrition) will require re-balancing and redistribution of workforce

Note: Data obtained from Strategic Transition Plan, p. 7.

Being very thorough in planning the transition, the ESG stipulated several strategic objectives to describe what NAVSEA should do to meet their goals. Four of them relate primarily to Headquarters' domain.<sup>66</sup> These are:

1. Design the future NAVSEA Washington organization based on streamlined acquisition, engineering, and logistics functions, with full utilization of the proposed

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<sup>66</sup> Ibid. p. 8-10.

"Centers", and streamlined/consolidated business support functions. Improve working relationship and communications with PEOs/DRPMs by clarifying roles and responsibilities. Streamline/consolidate staff and business support functions by reducing management layers, and eliminating redundant functions and non-critical work.

2. Restructure core operations at NAVSEA Washington to strengthen and where possible consolidate engineering and acquisition functions. Clarify lines of technical authority and accountability and working relationships among NAVSEA Washington, in-service engineering agents, centers and other field activities. Build on the Warfare Center's functional purification efforts by transitioning non-core engineering and mature/stable program management functions and people to field sites.
3. Establish an Afloat Maintenance Organization (AMO) close to the customers, consolidating waterfront technical support and some fleet maintenance and readiness functions, as well as the advance of ship maintenance. Reorganize the Repair SUPSHIPS into Business Operating Centers and integrate them with the Afloat Maintenance Organization.
4. Support and develop a qualified and professional workforce to meet the Future NAVSEA Corporation's technical and quality requirements.

The establishment of the AMO (third objective) was viewed as a means of consolidating those functions which supported fleet maintenance/readiness close to the customers. Some of the AMO's responsibilities would include maintaining ships' material condition, determining requirements for and performing maintenance.<sup>67</sup>

To begin the restructuring process, NAVSEA determined that it had to identify which functions could feasibly be shifted

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<sup>67</sup> Ibid., pp. 16-17.



to its field activities. So, a proposed functional realignment of the four categories was devised.

#### D. NAVSEA'S PROPOSED FUNCTIONAL ALIGNMENT

Figure 11 represents NAVSEA's "realignment concept and final transformation goal" for FY95.<sup>68</sup> As observed in comparing it to Figure 10, the proposed changes to Headquarters (HQs) are numerous. Whereas HQs had four categories--"Core," Research and Development, Systems Engineering, Ordnance support and AMO--now there is only a Headquarters "Core" category with slight modifications. The synopsis below captures the differences of "current" versus "proposed" status more succinctly.

<b>Current "Core" Functions</b>	<b>Proposed "Core" Functions</b>
-----	-----
*Central Technical Authority	*Program Management and Support
*Program Management	*Systems Engineering with Central Technical Authority
*Policy	*Contracts
*Comptroller and Contracts	*Comptroller
*Corporate Management	*Logistics & Fleet Support
*PEO/DRPM Support	*Command Support including Corporate Management and Policy
	*Peo/DRPM Support

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<sup>68</sup> Ibid., p. 20.

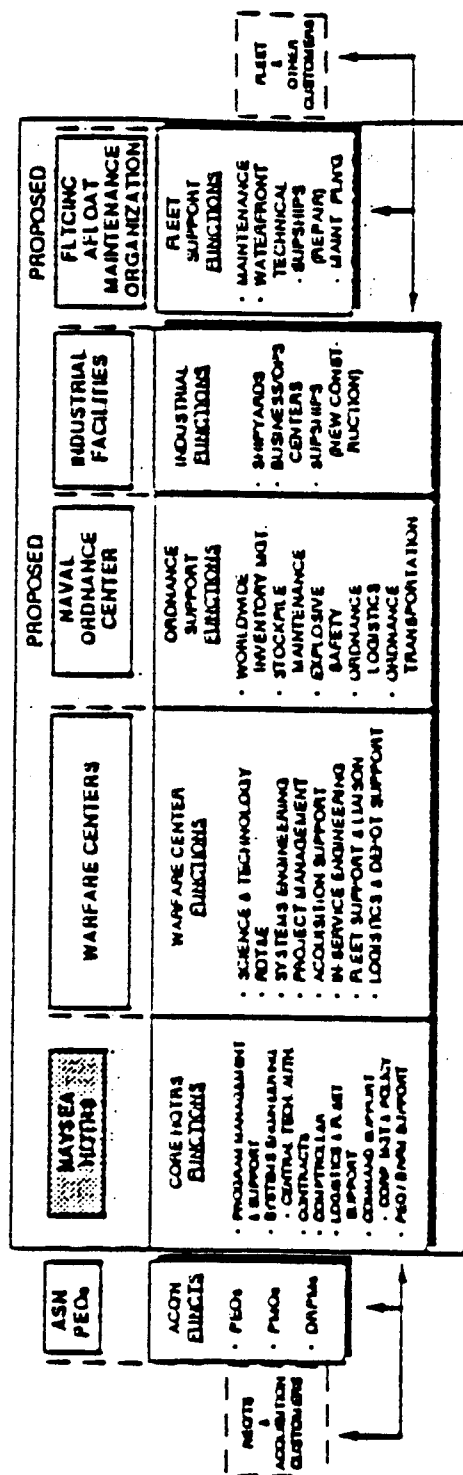


Figure 11. NAVSEA's Realignment Concept and Final Transformation Goal, FY95

Program Management begins the list, which may designate its significance as a primary function. The Central Technical Authority is proposed as a subfunction of systems engineering. Contracts and comptroller functions are now distinct and higher in precedence than before. Logistics and fleet support are transferred from the R&D systems engineering category to "core" under the alignment. Command support is a new function that includes corporate management and policy, which were separate entities. Lastly, PEO/DRPM Support remained identical to its past stature without any change. All of the other headquarters functions were either renamed, transferred to other NAVSEA activities, or eliminated.

From this proposed projection of NAVSEA Headquarters, it is clear that more emphasis was placed on streamlining its activities in harmony with the Business Assumptions aforementioned. To achieve this structural change, organizational restructuring was directed by numerous NAVSEA Notices and Strategic Objectives, with corresponding actions developed to specify the implemental changes required.

To visualize the changes that NAVSEA made, Figure 8 needs to be reviewed with attention given to the internal departmental codes that identify each area beginning with "SEA." One of the first changes beginning Headquarters' reorganization occurred in October 1991 with the establishment

of a Military Manpower and Personnel Office.<sup>69</sup> Designated as SEA 09M, the Director had the responsibility for consolidating all military personnel matters under one office which would be the command's central contact for all officers and enlistees. In accomplishing this consolidation, Military Manpower Office, NAVSEA 01M2, relinquished all matters regarding manpower issues while SEA 00P, Military Personnel Management Office, forwarded all of its personnel responsibilities to SEA 09M. This action was undertaken to end redundancy and facilitate dialogues between those who were involved with military manpower and personnel issues.

In this department, the following divisions were created:<sup>70</sup>

- Director, Military Manpower and Personnel Officer
- Military Personnel Specialist (SEA 09MC)
- Military Manpower Services Branch (SEA 09M1)
- Military Personnel Services Branch (SEA 09M2)
- Office of Force Master Chief/Special Programs (SEA 09M3)
- Office of the Command Master Chief (SEA 09M4)
- Office of the Chaplain (SEA 09M5)

The Director of this newly organized office would be a pivotal reference for future downsizing of Headquarter's personnel as part of the Command Staff. SEA 09MC's responsibilities were many; however, two become very critical in force reductions: (1) to place military persons throughout Headquarters and orchestrate the coordination of officers slated for PEOs and

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<sup>69</sup> Commander, Naval Sea Systems Command, Notice 5400, OPR 032/069, December 5, 1991, pp. 1-6.

<sup>70</sup> Ibid.

DRPMs positions; (2) to develop the Command personnel action plan when downsizing mandates are imposed. SEA 09M1 also had several obligations with major ones involving the development of the military manpower requirements (with justifications) for DoD Program Objective Memorandum (POM) and Future Years Defense Program (FYDP) budget planning. Military Personnel Services, SEA 09M2, is responsible for administrative requirements such as correspondence, evaluations, and other military programs.

SEA 09M3, Force Master Chief, is an advisor to the Commander on morale and all enlistees' concerns--personal and professional. Additionally, it provides liaisons with the Fleet for potential policy changes and shipboard improvements.

SEA09M4, Command Master Chief, is involved with internal organizational morale and welfare matters and career development of the enlisted community.

SEA 09M5, Chaplain, provides moral and spiritual guidance to military members and their families.

#### **E. STRATEGIC OBJECTIVES (SOBJ)**

There are six strategic objectives that are devised for NAVSEA' reorganization; however, only five are discussed here as they pertain directly to Headquarters' functions that are either transferred or abolished.

## 1. Strategic Objective #1

The #1 SOBJ, Acquisition Program Realignment, states:

Design the **future NAVSEA Washington organization** based on streamlined acquisition, engineering, and logistics functions, with full utilization of the proposed "Centers", and streamlined/consolidated business support functions. **Improve working relationship and communications with PEOs/DRPMs** by clarifying roles and responsibilities. **Streamline/consolidate staff and business support functions** by reducing management layers, and eliminating redundant functions and non critical work.<sup>71</sup>

This SOBJ specifically addresses the interaction between and responsibilities of Program Executive Officers (PEOs), Direct Responsible Program Managers (DRPMs) and NAVSEA. It also delineates the initial Headquarter's reorganization. The ASN PEOs and acquisition functions are directly targeted. Some of the benefits desired include greater efficiency from a streamlined operation with less duplication of work effort and improved warfare area program and customer support. Where feasible, work is consolidated, delegated, or eliminated with respect to the authority assigned.

By implementing this program realignment, NAVSEA expects the PEOs/DRPMs to concentrate on critical programs, aligning missions appropriately by their platforms. There are two distinct action phases for initiating the program realignment in stages.

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<sup>71</sup> STP, p. 19.

**a. Phase I Actions**

Slated between June and September 1992, these actions established PEOs with specific platforms and weapon systems for Submarine Systems, Undersea Warfare, Mine Warfare, and Ship Defense. The Submarine Combat Systems, Surface Ship ASW Systems and DRPM-Seawolf are disestablished. Only DRPM Aegis remains intact. A Strategic Sealift Program Office (SEA 91) was also developed in July 1992 due to the great exposure Sealift received during the aftermath of Operation Desert Storm.

During this phased time, NAVSEA executed several policy changes that related to the goals established. One such NAVSEA Note pertains to the "Organizational Structure of The Corporate Operations Office, SEA 09M."<sup>72</sup> This notice established this HQ's office and its inherent responsibilities to include the transfer of current civilian manpower duties. SEA 09B was to initiate NAVSEA's "Total Force Management" and provide executive counsel for strategic planning and develop civilian policies for the projected downsizing within the Department of the Navy (DON).

This corporate operations office is the source for all personnel downsizing plans and actions, internal and external to the Command. Consequently, hiring freezes, early

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<sup>72</sup> Commander, Naval Sea Systems Command, Notice 5400, OPR 09DX/020, June 23, 1992, pp. 1-4.

outs or any reductions in force (RIFs) are coordinated herein. Its Director reports to the Vice Commander, SEA 09.

Another notice promulgated detailed the "realignment of the submarine research and development function from NAVSEA to DRPM-SSN21 (PMS350)."<sup>73</sup> This change accommodated the April 1992 agreement to centralize key elements of the submarine life cycle community to maximize both resource and functional effectiveness. Such a consolidated effort was practical as PMS350 was the project manager for SECNAV's "new SSN concept design project, initiated in February 1991. With the observed growing migration from SEA 92R's submarine development program emphasis towards the DRPM-SSN21's area, this transfer was deemed a logical flow which became effective in July 1992.

**b. Phase II Actions**

In September 1992, NAVSEA was informed that their effort should focus on "program management and execution, and strengthening NAVSEA technical matrix support for engineering and fleet support of the realigned" PEOs and DRPMs.<sup>74</sup> This guidance entailed more specific and consolidated delineation of technical and functional authority for decision-making purposes.

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<sup>73</sup> Commander, Naval Sea Systems Command, Notice 5400, OPR 92M/178, July 23 1992, p. 1.

<sup>74</sup> STP, p. 23.



In support of this, the realignment of the Office of the Director, Ocean Engineering, Supervisor of Salvage and Diving (SEA OOC) was announced in October 1992. The purpose was to transfer all of the personnel and functions from SEA OOC to SEA 91 (Surface Ship Director). With this change, SEA 91 would be the Federal Government's primary technical authority for all salvage, search and recovery operations, at-sea hazardous material pollution abatement and more.<sup>75</sup>

In May 1993, the Office of Special Assistant for NAVSEA Base Structure Matters (SEA O9X) was established due to the Base Realignment and Closure (BRAC) I (1988) and II (1991) downsizing actions taken. These actions affected about one-third of NAVSEA's field structure and had a definite consequence on mission readiness and the subsequent reduction of Headquarters' workforce with further cuts projected from BRAC III (FY95). The Special Assistant's role was to facilitate interlocution with external activities, provide the critical direction for formulating future intentions, and consolidate NAVSEA's BRAC related financial management. From this designation, a NAVSEA Base Structure Working Team (BSWT) was authorized to centralized BRAC-related actions and determine the most cost-effective methodology for accomplishing the targeted reductions throughout the entire command to include the field activities. This proactive

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<sup>75</sup> Commander, Naval Sea Systems Command, Notice, Ser 09B/322, October 1992, pp. 1-3.

change instituted functional coordination within its hierarchial structure and delineated responsibilities and tasks more clearly.<sup>76</sup>

More restructuring was ordered in September 1993 with the disestablishment of the Weapons and Combat Systems Directorate (SEA 06) with partial responsibility shifting to the Surface Ship Directorate (SEA 91)<sup>77</sup> and the Submarine Directorate (SEA 92).<sup>78</sup> This change was accomplished only after an Engineering Directorate (SEA 03) was designed followed by more dispersement of field activity functions to appropriate departments. As previous budget reductions necessitated that Headquarters control its cost while remaining operationally effective, and in alignment with the Transition Planning Taskforce, it was deemed prudent to make SEA 91 responsible for all surface functions to avoid work redundancy. Although several new subdivisions were formed as a result of the increased responsibility, the consolidation was best suited to SEA 91's current requirements.

SEA 92 was better equipped to assume taskings related to both in-service submarine combat systems and submarine electronic warfare and periscope systems which were

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<sup>76</sup> Commander, Naval Sea Systems Command, Notice 5400, Serial OPR 09B11/154, May 20, 1993, pp. 1-2.

<sup>77</sup> Commander, Naval Sea Systems Command, Notice 5400, Serial OPR 09B1/234, September 30, 1993, pp. 1-2.

<sup>78</sup> Commander, Naval Sea Systems Command, Notice 5400, October 13, 1993, pp. 1-3.

germane to PEO-SUB. As such, a new sub-division, Submarine Combat Systems Program office, was added to SEA 92. This particular shift ultimately allowed the PEO-SUB to concentrate on fulfilling the primary mission of program acquisitions.

Throughout the phases of Strategic Objective number one, Headquarters was continuously reviewed to achieve a streamlined customer-oriented department. It was to be predicated upon an "execution of core functions, and programs with current, documented requirements and funding, reduced overhead and operating costs through process improvement and consolidation of functions where feasible."<sup>79</sup> The results of the review determined a **30 percent reduction-in-force** (RIFs) from September 1991 to September 1995. Table 4 reveals the decreased projected manning targets (RIFs) including those who were functionally transferred to field activities from Headquarters. The accelerated reduction in FY94 was purposely set to meet the President's \$3 billion DoD budget cut.

**TABLE 4. HEADQUARTERS' PROJECTED PERSONNEL FLOWS FY92-FY95**

BUDGET LEVELS	SEP 91	SEP 92	SEP 93	SEP 94	SEP 95
FY93 FEDERAL TARGET	4,871	4,487	4,335	3,915	3,637
FY94 REVISION	4,871	4,487	4,335	3,791	3,637

Note: This Table was created from NAVSEA data obtained in the STP, p. 26.

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<sup>79</sup> STP, p. 25.

Presidential Executive Order 12839 called for an overall government employee reduction of 100,000 civilians (and high grade positions) in this projected fiscal window. Internal documentation shows that actual civilian workforce reductions in Headquarters went from 5,268 in FY89 to 4,474 in FY92 (the base year) to 4,019 in FY93. The entire command figuratively reaped more than \$1 billion from salary cost savings in its total downsizing plan from FY89 to FY95.<sup>80</sup> With respect to high tenure billets (GM-13 to GM-15), NAVSEA generated a total 8.9 percent reduction from FY91 to FY93.

A decision was made at NAVSEA to form a Transition Planning Taskforce whose job would be to lead the way in the restructuring goals set forth for the future "corporation" while looking forward to 5-10 years out. This Taskforce would outline a Plan of Action and Milestones (POA&M) for each core area in accordance with NAVSEA's Business Assumptions previously stated. From this consolidation, the Taskforce would also determine the cost savings from personnel reductions.

A Restructuring Advisory Board composed of external NAVSEA representatives was formed to provide inputs, advice, and constructive criticism of alternatives that the Taskforce submitted

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<sup>80</sup> Commander, NAVSEA letter 12000, Serial OPR:09B, Serial 09B/322, November 09, 1993, p. 4.

to the Commander. "The expected outcome of the consolidation and realignment planning efforts include:

- smaller staffs;
- reduced management layers;
- reduced process checkpoints and expanded supervisory scope;
- rationalization of high grade positions;
- equal or improved timeliness in customer response; and
- progress toward the reduction target."<sup>81</sup>

The Taskforce devised a transformation timeline to monitor the completion of Strategic Objective #1. It is depicted in Figure 12.

## 2. Strategic Objective #2.

The #2 SOBJ states the following:<sup>82</sup>

Restructure core operation at NAVSEA Washington to strengthen and where possible consolidate engineering and acquisition functions. Clarify lines of **technical authority and accountability**; and working relationships among NAVSEA Washington, in-service engineering agents, centers and other field activities. Build on the **Warfare Center's functional purification efforts** by **transitioning non-core engineering and mature/stable program management functions and people to field sites**.

This SOBJ is designed to clarify all of the positions, "responsibilities, authorities and relationships among NAVSEA

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<sup>81</sup> STP, p. 30.

<sup>82</sup> STP, p. 35.

RESTRUCTURING EVENT	FY AND QTR											
	92	93	93	93	93	93	94	94	94	94	95	95
	4	1	2	3	4	1	2	3	4	1	2	3
1. PROGRAM REALIGNMENT: PEOS/DRPM/NAVSEA:												
- ALIGNMENT DECISION:	•	•										
- ORG'S CHARTERED AND OPERATIONAL:												
2. NAVSEA HEADQUARTERS RESTRUCTURING:												
- DEVELOP INTEGRATION CONTENT & POA&M FOR:												
• ACQ. & FLT SUPP'T ORGANIZATION		^	^	^	^							
• ENGINEERING ORGANIZATION				•	•	•						
• OPERATIONS ORGANIZATION				•	•	•						
• FIELD ACT'Y MANAGEMENT ORG.												
- CONSOLIDATE MATRIX FUNCTIONS (AS DETERMINED BY ABOVE POA&M):												
• FINANCIAL												
• IRM												
• LOGISTICS												
- ESTABLISH & OPERATE:												
• OPERATIONS DIRECTORATE												
• ENGINEERING DIRECTORATE												
• ACQ. & FLT SUPP'T DIRECTORATE												
• FIELD ACT'Y MGT DIRECTORATE												

NOTES: • - ACTION COMPLETE > - ACTION BEGINS + - EXECUTIVE LEADERSHIP SELECTED

Figure 12. Transformation Timeline: Strategic Objective #1

Headquarters and the Warfare Centers (Surface and Undersea) and includes the transfer of non-core work to appropriate field sites."<sup>83</sup> The most critical determinants of what functions are eligible for transfer to the Warfare Center or any other field activity are:<sup>84</sup>

- accountability and authority for the function;
- identification as "non-core" headquarters function;
- appropriateness of the function to the selected field activity; and
- funding for the functions in their new location.

The lack of funding to accept a new function will not prohibit Headquarters from targeting it. Headquarters will not digress from its "core" responsibilities as detailed previously. COMNAVSEA remains assigned "technical authority and accountability for all ships, submarines, craft and their systems, including life cycle management" except for those already granted to the PEOs/DRPMs.<sup>85</sup>

The strategic transformation timeline is presented in Table 5.

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<sup>83</sup> Ibid., p. 35.

<sup>84</sup> IBID.

<sup>85</sup> Ibid., p. 36.

TABLE 5. SOBJ #2 TRANSFORMATION TIMELINE<sup>86</sup>

1. Update authority instructions & extend to full corporate scope by third quarter, FY93.
2. Identify Phase I transfers to the field by second quarter, FY92 and complete transfer by within two years (FY94).
3. Identify Phase II transfers to the field by third quarter, FY93, and complete transfers by first quarter, FY95.

### 3. Strategic Objective #3.

The third SOBJ involves Headquarters and the FLTCINC Afloat Maintenance organization. It states:

Establish an Afloat Maintenance Organization close to the customers, consolidating waterfront technical support and some fleet maintenance and readiness functions, as well as the advance planning of ship maintenance. Reorganize the Repair SUPSHIPS into Business Operating Centers, and integrate them with the Afloat Maintenance Organization.<sup>87</sup>

The purpose of this objective is twofold. The first involves the realignment of waterfront technical support and the second addresses the "intermediate and depot-level maintenance availability advance planning."<sup>88</sup> The breadth of this measure potentially affects over 4,000 people throughout 50 activities.

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<sup>86</sup> Ibid., p. 42.

<sup>87</sup> Ibid., p. 43.

<sup>88</sup> Ibid., p. 44.



The second purpose is important as it is necessary to determine the tradeoffs between individual ship repair needs and the maintenance costs, which is directly linked to the size and productivity of the support infrastructure. As the CNO's operational agent and the Manpower and Operations and Maintenance, Navy (O&MN) funds claimant, the Fleet Commander in Chief (FLTCINC) is the logical centralized point to make these trade-off decisions.

Expected benefits from this functional realignment will result in a cost savings due to producing: (1) smaller and responsive direct fleet support and repair determination infrastructure; (2) smaller, integrated and more responsive advanced maintenance planning arena; and (3) smaller, integrated and more responsive contract administration facility to repair privately owned ships.<sup>89</sup>

Most of the planned milestones to accomplish SOBJ #3 are completed by the third quarter in Calendar Year (CY) 1993 with four remaining actions completed by the end of CY94.

#### **4. Strategic Objective #4**

This objective involves Headquarters and the Industrial Facilities Branch with the ultimate goal as consolidation of the planning and support functions needed for the most cost-advantageous avenue to conduct Navy ship repair and modernization.

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<sup>89</sup> Ibid., p. 45.

It reads as follows:

Reorganize the Naval Shipyards into Business Operating Centers. A Business Operating Center (BOC) is an organization that serves as a platform for consolidation and streamlining of planning and support functions to conduct navy ship modernization and repair. Business Operating Centers will provide the following: Planning and Estimating; Financial-Accounting/Payroll; Engineering; Material Support; Business/Workload Management; and Administration-Personnel and Training. Centers of Excellence will be established for such areas as machine shop, foundry, electronics and calibration. The goal is to reduce the cost of shipwork through a combination of these actions.<sup>90</sup>

The argument in favor of this consolidation is that a BOC will provide increased efficiencies to the customers in several functions that Headquarters can now stop doing. Some of these functions include:

- \* Material Support
- \* Planning and Engineering
- \* Environmental and Safety
- \* Managing Work Execution
- \* General Administration and Financial Management
- \* Automated Information Systems
- \* Training
- \* Public works

It is estimated that a billet reduction between 12 percent to 32 percent of support functions will be realized from this transition.<sup>91</sup>

The actions required for this SOBJ were either completed or scheduled for completion by September 1992.

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<sup>90</sup> Ibid., p. 51.

<sup>91</sup> Ibid., p. 52.

## 5. Strategic Objective #5

This SOBJ involves more transfers of authority from Headquarters to the Naval Ordnance Center in direct response to the Secretary of the Navy's request, made 5 January 1993. The fifth objective reads:<sup>92</sup>

Consolidate all in-service expendable ordnance functions of NAVSEA, NAVAIR, and NAVSUP into a **Naval Ordnance Center (NOC)**. Establish **Weapons Stations Business Operating Centers** as part of a Naval Ordnance Center. Make substantial use of Naval reservists in the workforce at Weapons Stations.

This particular objective arose from a Quality Management Review Board (QMB) that studied the ammunition maintenance and delivery processes to both Navy and Marine Corps customers in Operation Desert Shield. This AMMO Board concluded that:<sup>93</sup>

- The various ordnance items are managed by over a dozen program managers each of whom has different procedures and processes;
- The ordnance items themselves are managed differently according to their groupings and applications;
- Different activities manage inventory, maintenance, and procurement;
- There is low coordination between acquisition and maintenance, and
- The ordnance management information systems are inadequate.

The consequences of these findings show that customers must basically get the ammunition they need from whatever source is possible that they can identify. This poses a very frustrating

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<sup>92</sup> Ibid., p. 55.

<sup>93</sup> Ibid., p. 56.

scenario that can be very dangerous in a war scenario, as well as indicates much duplication.

Thus, it appears as a natural proposal to generate a single point of contact to handle all ammunition requests and, logically, the Commander, Naval Ordnance Center, is the choice. Given that the defense budget is sharply declining, the derived benefits of this merger are evident. The incorporation of reservists' training will also help reduce costs.

This proposal remains on the table for consideration and future implementation planning.

#### **F. NAVSEA HEADQUARTERS-NOVEMBER 1993**

Visualizing all of the changes mentioned above is a monumental task. However, Figure 13 shows the resultant Headquarters' structural diagram as of November 1993. The key observations are the greater specificity in the lower echelons of the diagram where previously, as shown in Figure 8, there were 10 divisions and 5 PEOs/DRPMs. The current chart reflects the same quantities but with different names and corresponding functions.

Unlike the past, there is a PEO for "Theater Air Defense," "Mine Warfare," and the "Aegis Program Manager." The Naval Ordnance Center is on line as is the new Naval Ship yard and Support Ship Management & Field Activity Support (SEA 07) and Engineering (SEA 03).

With respect to personnel, there are 3,373 civilians and 240 military personnel remaining as of 10 October 1993 in Headquarters.

# NAVAL SEA SYSTEMS COMMAND HEADQUARTERS - NOV 93

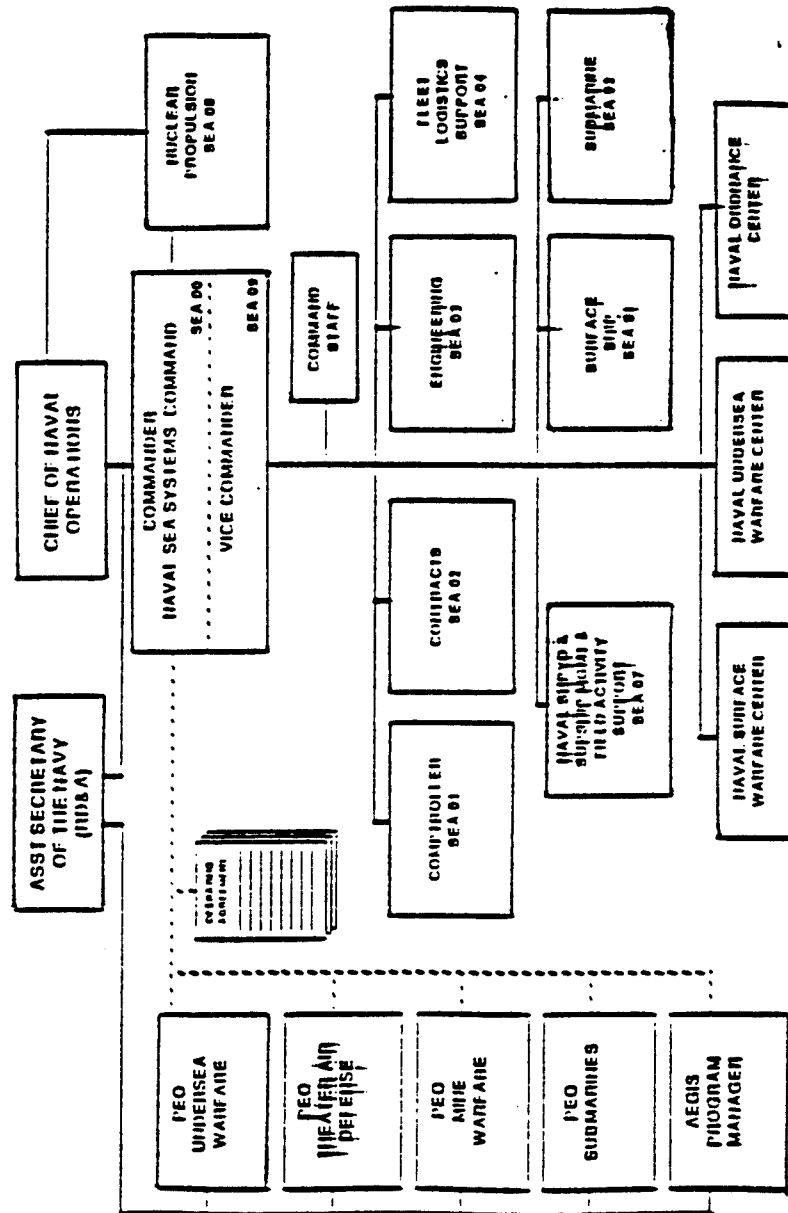


Figure 13. NAVSEA Headquarters Structure as of November 1993

This is a significant decrease from the previous year's data that reflected 4,212 civilians and 413 military present. Although Executive Order 12839 dictated an annual personnel reduction from FY93 to the end of FY95 of 1.3 percent, Headquarters' planned reduction stipulates a 4 percent decrease annually, equating to 815 civilian personnel departures. These departures warrant greater measures than the hiring freeze of 1991 and normal 4-5 percent annual attrition generated. Voluntary Separation Incentive Payments (VSIP) were accepted by 350 civilians in FY93, which helped meet the base target; however, for FY94 and FY95, this program alone is insufficient. "Planned realignments of some functions and personnel to field activities" are anticipated to meet the end strengths projections.<sup>94</sup> This measure is commonly known as involuntary separations.

"All organizations and functions within the Headquarters have been reviewed for reductions, and all organizations are smaller today than in 1989."<sup>95</sup> Comparing these downsizing reductions to the model of fiscal restraint, similarities or contrasts can be observed for future benefits to other Naval managers. Chapter IV presents this synopsis after introducing the model in its entirety.

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<sup>94</sup> Commander, NAVSEA, letter 12000, OPR: 09B Serial 09B/322, November 09, 1993, pp. 14-15.

<sup>95</sup> Ibid., p. 14.

#### IV. NAVSEA HEADQUARTERS COMPARED TO MODEL

This thesis analyzes the downsizing of NAVSEASYS COM Headquarters using as a base of comparison the model provided in "Phases of Recognition and Management of Financial Crisis in Public Organization" by L.R. Jones.

Executive and Congressional budget cuts continue to force reductions upon Naval commands. Such actions warrant activity Commanders having viable information and/or "tools" at their disposal to accommodate change. Documenting the downsizing of the largest Naval Command, NAVSEA, in comparison to the predictive Jones' model helps to meet this need.

##### A. THE MODEL OF FISCAL RESPONSE

This model of fiscal stress responses discusses "the manner in which public organizations recognize and attempt to manage financial crises and prolonged financial stress." The foundation of the model lies in three basic assumptions previously stated:

1. Public organizations employ four non-mutually exclusive responses in managing fiscal stress: across-the-board reduction, specific program reduction, program termination, and program reorganization and consolidation or merger
2. Significant centralization of authority characterizes restraint responses

3. Organizational "smoothing" of reduction over a multiyear period accommodates fiscal restraint more effectively than quick cuts.<sup>96</sup>

The two most prominent retrenchment management choices are to increase revenues and to reduce expenditures. The former one entails examining current sources of revenues and searching for new ones with care in generating political support for increasing revenues. The second option espouses "across-the-board reduction, specific program reduction, and program-policy merger and termination."<sup>97</sup>

The phases of recognition and management of financial crisis evolve from an integrative "scenario-based model of financial stress-coping methods in time sequence."<sup>98</sup> The model contains the "errors of generalization, omission and potential inapplicability to specific cases and circumstances."<sup>99</sup> However, it is useful for identifying many of the events that appear to characterize financial crisis management in public organizations and may prove just as valuable for government organizations as well. Although the model portrays what happens beyond the fifth year of restructuring, it is still useful in analyzing NAVSEA Headquarters in the two-year

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<sup>96</sup> Jones and Bixler, op. cit., p. 141.

<sup>97</sup> L.R. Jones, "Phases of recognition and management of financial crisis in public organizations," Canadian Public Administrators, Vol. 27, No. 1, p. 51.

<sup>98</sup> Jones and Bixler, op. cit., p. 52.

<sup>99</sup> Jones, op. cit., p. 52.



period from 1991-1993 as further cutbacks were projected beyond this window.

The entire model is presented on the following pages as Table 6.

## **B. MODEL DISCUSSION AND NAVSEA HEADQUARTERS ANALYSIS**

### **1. Phases 1-3**

What this model predicts in the first three phases is an introductory period of acknowledging receipt of the orders to downsize, but really not believing or accepting it. Basically, no one pays attention to the promulgated crisis, and, when forced to react, only short-term measures are implemented without much planning or forethought. Blame is quick when the crisis is finally recognized as a real issue that apparently will last longer than a year. Then, ad hoc decisions are made to reduce spending to the target level stipulated, but not one dollar more. No one volunteers to reduce his or her departmental operating budget so other programs, generally deemed non-essential, are cut first. Such programs are labeled "soft services" and include supply/support departmental budgets, reductions in funding capital depreciation, and training programs.<sup>100</sup>

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<sup>100</sup> Ibid, p. 55.

**TABLE 6. PHASES OF RECOGNITION AND MANAGEMENT OF FINANCIAL CRISIS  
IN PUBLIC ORGANIZATIONS**

Timing and degree of scarcity	Phase Events (under assumption that revenues continue to be reduced through phase 7)
6 months	1. Ignoring that a crisis exists; moderate reductions in expenditures; crisis termed "only temporary."
to	2. Short-term across-the-board expenditure cuts made and attempts to increase revenue from existing sources instituted.
2nd year	3. Recognition that crisis may persist for longer period (more than one year); casting the blame for causes of the crisis; ad hoc "invisible" expenditure reductions (e.g., in capital plant maintenance or depreciation funding).
Relaxed and chronic scarcity	4. Broader across-the-board expenditure reduction; salary and hiring freezes imposed; intergovernmental revenue assistance sought, new sources of revenue sought; efficiency-oriented program cost studies instituted; workload cost measures improved; "softer" nonessential services reduced; mandated programs examined for reduction.
1st year	5. Across-the-board reductions continued, accompanied by additional reductions in specific programs; some employee layoffs occur; improvement sought in revenue forecasting; program and policy evaluation undertaken more seriously; unions and employee organizations resist further cuts in salary; "hits list" of programs for possible termination developed based upon traditional organizational criteria; the rumor mill picks up steam and employee tension increases. Employee training and development, staff services and non-essential public services reduced further or eliminated; borrowing capability weakened or lost; some mandated programs discontinued.
to	
3rd year	

Chronic to short-term acute scarcity	<p>6. Across-the-board and specific program reductions cause more employee layoffs and some job terminations; specific programs are terminated with some functions absorbed by other units; some employees transfer to other units; employee morale and productivity drops; some skilled and highly valued employees seek jobs outside the organization; negotiations held over trade-offs between salary reductions versus more employees layoffs and terminations; organization heads recognize need for better and more comparable program information; user fees increased or instituted.</p>
Prolonged acute scarcity	<p>7. Further program terminations contemplated or implemented; leaders recognize need for longer-term strategic planning to integrate program and financial strategies; need for restoring some expenditures recognized (physical plant maintenance and capital investment, employee training); program priorities and decision criteria established; consultant assistance sought; revenue base and structure analysis begins; organizational leaders use political contacts and leverage in attempt to gain revenues or avoid further reductions; credit rating weakened; processes developed to improve employee participation in program/service delivery planning and evaluation; fees, charges, and other discretionary revenues increased; organizational leadership may change.</p>
3rd year	<p>8. Development and implementation of long-term program and financial planning; organization missions and objectives renegotiated; new revenue sources expand revenues to balance budget at reduced expenditure level; employee layoffs and terminations discontinued; organization invests in market analysis to complement internal program evaluation; pricing policies, service demand changes and segmentation studied, and budgetary strategies examined and modified. Continued austerity conditions accepted; reorganization plans considered; credit ratings stabilized; greater involvement of external participants.</p>
to	
5th year	

Prolonged acute scarcity to long-term austerity	9. Implementation of program, financial and market plans; reorganization of functions and responsibilities undertaken; revenues and expenditures balanced for one or two successive years; some service responsibilities eliminated through contracting out, privatization and other means; greater citizen involvement in service prioritization over long term; salary increases instituted and some new employees hired in specialized areas; attempts at marketing new organization missions and objectives undertaken. Employee productivity and morale improved; confidence in leadership strengthened.
Beyond 5th year	10. Revenues and expenditures balanced over multi-year period; renewed capability from borrowing results from improved credit rating; some old debt refinanced; search for new solutions to social problems; development and testing of "utopian" technologies and service approaches; reformulation of intergovernmental service obligations; intergovernmental revenue authority negotiated and shifted; recognition that some service and revenue problems will persist; improvements made in integration of program and comprehensive financial planning; citizen support for organization improves.
Long-term austerity and financial recovery	

Note: Data for Table extracted from L.R. Jones, "Phases of Recognition and Management of financial crisis in public organizations," Canadian Public Administration, pp. 52-55.

These types of budget cuts usually do not affect the customer and are least threatening to an organization still in downsizing denial. However, Jones notes that the employees will begin to feel demoralized when personnel training and education is eliminated. Additionally, when an organization ignores funding maintenance and taking depreciation, repair and replacement costs assuredly will be greater in the long term, thereby negating any overall advantage and making future cutback efforts politically more difficult.

Recalling what **NAVSEA Headquarters** did from Chapter III, one of the first endeavors involved establishing an Executive Steering Group (ESG) to strategically direct the downsizing effort. There is no evidence or data obtained that shows an unwillingness to

adjust to the new, albeit reduced, budget constraints. Perhaps this is best explained given the time period of observation--1991 through 1993--with the preceding years indicative of great change to come due to the collapse of the Soviet Union and end of the Cold War.

One of the first reduction efforts initiated was immediate offerings of early personnel retirement announced in FY91 and FY92 generating an exodus of 530+ civilian personnel--most without replacements. As for reducing military billets, 48 officers and 12 enlisted personnel departed without replacement, creating vacancies. Work responsibilities were absorbed by remaining personnel--the survivors. There were no forced reductions at this juncture; however, as news of further personnel cuts was disseminated, people presumably began to seriously consider their options and likelihood for job security. This is typical behavior, identified from retrenchment research that discusses the fear and distrust arising from cutback management.

## **2. Phases 4-6**

These next phases involve serious across-the-board cuts (ABC) in program budgets that support the organization better known as "smoothing." This methodology includes salary caps, personnel hiring freezes or layoffs, or reducing (and possibly eliminating) specific services. Companies may choose one or a mixture of these options, depending on their organizational philosophy.

Those in favor of "smoothing" the effects of the right-sizing ABC advocate the equity of evenly reducing everyone's budget, relying on normal attrition with gapped billets (i.e., no replacements) in addition to strategies implemented in the first phases. "Advocates of program termination argue the across-the-board strategy weakens organizations throughout and is ineffective in that high-demand programs and high-quality personnel are cut the same amount as weaker ones."<sup>101</sup>

These supporters further maintain that program termination dictates advanced planning with priorities well established before the company is reorganized rather than a haphazard approach that appeases no one. To accomplish this, much information, communication, and team work are necessary, which helps reduce confusion and fear of the build-down.

**NAVSEA Headquarters** did not appear to take straight across-the-board cuts, but preferred to initially rely on natural attrition coupled with detailed strategic planning for long-term survival. They were concerned about the employees and customers, as evidenced by the new definition of its mission and future vision with various guiding principles established. Headquarters was streamlined in an efficient manner, maintaining central decision-making authority whereby more functional authority was issued to the Program Executive Officers/Direct Reporting Program Managers (PEOs/DRPMs). This was observed when Headquarters

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<sup>101</sup> Ibid., pp. 55-56.

established the Military Manpower and Personnel Office (SEA 09) in October 1991 and eliminated the Weapons and Combat Systems Directorate (SEA 06) in September 1993.

### **3. Phases 7-10**

The last phases of fiscal stress responses involves policy and program termination. During these phases, organizations do not have accurate program facts to justifiably make choices between policy decisions or program termination. Thus, cuts are made using the "LIFO" accounting methodology of "Last In, First Out," with newest programs cut first. Additionally, this decision time is fraught with intense political conflict from the major directors, department heads, or key personnel as a potential "hit list" of their programs are identified. Such political frenzy is counter-productive and needs to be carefully controlled by disseminating information on why the reduction is needed and the potential consequences of not taking such action.

As this stage takes Headquarters beyond year three of its window, all that can be done is conjecture at this point. Given the well-documented projection of NAVSEA's future aspirations, there is little doubt that this "corporation" is preparing for, and exceeding its downsizing mandates. NAVSEA has adopted the posture that it wants to lead the way proactively as future downsizing occurs.

## V. CONCLUSIONS AND RECOMMENDATIONS

### A. SUMMARY

This thesis analyzed and documented the downsizing of NAVSEASYS COM Headquarters using as a base of comparison the model provided in "Phases of Recognition and Management of Financial Crisis in public Organization" by L.R. Jones.

The Primary research questions were:

1. Does NAVSEA Headquarters' downsizing parallel that of the Jones model? If not, what alternate decision process was implemented?
2. Were drawdown decisions made by central authority?
3. Were "Across-The-Board" or a "Reduction in Targeted Services Programs" or a combination of both implemented?

Given the window of time that is analyzed here, there is no evidence of any initial resistance to Headquarters' build-down during 1991--1993. Given that no organization is ideal, an assumption is made that, prior to 1991, NAVSEA must have gone through a period of disbelief and unacceptance of the RIF as it was an unprecedented downsizing era. Accepting this initial assumption, then, it is possible to say that Headquarters followed the model initially by ignoring the first external indications from its environment until mandates were issued.



However, once orders were received, NAVSEA Headquarters sprang into action. An Executive Steering Group and later, a Taskforce, were formed to pave the way to a better organization that not only was efficient but looked after its employees' work environment and focused upon maintaining or improving customer satisfaction. Based on the recommendations of the various strategic planning groups, the NAVSEA Commander made the recommendations a reality by issuing operating directives for command reorganization.

There were no apparent across-the-board cuts as NAVSEA followed a prepared plan of action that was based on logical work flows and job assessments. Policies, practices, and programs were evaluated and changed according to the most efficient organizational advantage.

The subsidiary research questions included the following:

1. How has NAVSEA Headquarters organizational structure (departments and people) changed as a result of budget cuts from 1991 to 1993?
2. How were billets eliminated--by attrition or other methodology?
3. Did NAVSEA develop a long term POA&M for its organizational restructure before or after downsizing?
4. Does the Jones model provide potential guidance for DoD activities to effectively utilize in drawdown decisions? What notable discrepancies are not addressed by the model?

In answering the first question, NAVSEA Headquarters executed numerous changes in its entire operations. Where they determined work was redundant, they eliminated it or authorized only one

source as the decision-maker. Their budget base in FY92 was \$16.8 billion and \$17.7 billion in FY93.

Personnel reductions declined to a targeted 4,335 in FY93 from 4,871 in FY92. This RIF occurred due to voluntary force reductions and natural attrition, at first. As billets were evaluated as unnecessary or redundant, they were eliminated without replacement. As people transferred, vacancies were only filled if crucial or the position's responsibilities were absorbed by another.

As documented throughout Headquarters' restructuring, there was a detailed plan of action and milestones outlined and visible throughout the organization. When actions were completed, they were so annotated. Annual reviews were conducted to ensure targets were met or exceeded. Major revisions were made to the Headquarters Official Operating Instructions, incorporating all mandated changes and realignments.

The model used as a base of comparison here proved to be useful in obtaining a synopsis of what to expect in corporate downsizing and relates very well to other prominent retrenchment theories. However, there are two areas that the model could address in greater depth which could provide greater assistance to military officers as personnel managers. The first one is the lack of emphasis on the survivors left behind to maintain high work efficiency or accomplish the same mission with less support from management and fiscal allotment. If the stated goal of demassing is to increase efficiency, given the resultant decreased employee

morale, how is this objective to be achieved in such a depressed situation?

Another area that is not addressed is the aftermath of shifting responsibilities to field activities as Headquarters did in realigning its "core functions." What is the impact to the fleet or external agencies who must assuredly distribute their increased workload to someone else? When does the re-distribution end, and at what cost to the survivors? How can managers expect their remaining workers to function at peak capacity when they have lost their faith in management and have no loyalty to the firm that has siphoned off many of their peers to the unemployment lines?

#### **B. RECOMMENDATIONS FOR FUTURE STUDIES**

In lieu of these concerns, one major recommendation for future study is to assess the psychological impact of restructuring upon the "survivors" and the external organizations gaining the additional responsibilities. What programs, training, or other options are available to regain employee trust and cooperative attitude? What can re-motivate these high-quality individuals to perform to the level of expectations management needs to make its mission? Much emphasis is placed on those who leave--i.e., their benefits, severance pay, and retirement annuity--to include job re-training, and it is time for the survivors to be better understood and appreciated.

Applying various managerial strategies to downsizing can be studied as well. The most basic recommendation is to attempt

talking to people honestly and putting them and their opinions first again. This is not to say that their opinions must be acted upon, merely that they are solicited. Having a productive work force is critical to the Navy and in stabilizing its reputation for mission readiness.

For those employees whose services are no longer needed, programs should be in existence before termination to ease the transition to the civilian labor market. This humane gesture may also foster some goodwill within the civilian community. Such programs could offer a selection of job counseling and resume workshops, job training or free educational opportunities to develop another marketable skill.

Currently, "...there is a growing body of psychological literature that addresses the impact of interventions on outcomes...[such as] financial incentives and benefits, outplacement, counseling, training, and communications."<sup>102</sup> The intervention methods apply not only to those who are displaced but to the survivors within the organization as well. Persons remaining will have the burden of carrying on the work load often without a reduction in the mission requirement and in an environment of fear, distrust, and job uncertainty.

Other measures include allocating resources for training and educating "All Hands," and investing in future technology. The lack of investment today for developing ships for tomorrow, could

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<sup>102</sup> Kozlowski, op. cit., p. ix.

foreshadow America's inability to cope with future military demands if not accomplished.<sup>103</sup>

Another recommendation for future endeavors involves conducting personal interviews of the Headquarters survivors to determine what level of productivity and morale exists as a way to investigate the "survivors' syndrome" effect of these massive changes and the ones that have been made since 1993.

### C. CONCLUSION

NAVSEA's overall organization was mandated to reorganize and downsize due to budgetary and personnel cutbacks in the Department of the Navy. Headquarters was drastically realigned to meet the challenges imposed. The changes that this particular department experienced were very methodical and well planned. There were grave concerns for the people involved who were either voluntarily or, as a last resort, involuntarily separated or transferred. Much care was given to specifying clearer lines of authority and delegating functions to the lowest level possible as espoused by TQL principles.

Headquarters' reorganization did not identically parallel that of the Jones model given the three-year window of observation allowed for this thesis. Notwithstanding, NAVSEA thoroughly planned its downsizing and did not go through many of the expected problems in its initial phases as described in the Jones model.

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<sup>103</sup> Blazer, op. cit., p. 13.

The second to third phases described in the model better relate to the choices NAVSEA had in its decision on how to reduce its budget.

Mutually beneficial, cooperative efforts between the private sector and the government are more likely to occur in the future as the serious political implications for base closures and further military lay offs are taken into account. However, once a national defense strategy is defined, the new conflicts can be assessed and then used to justify continuous military funding to the taxpayers and Congress. Ultimately, the U.S. military, including the Navy, must be able to maintain its renowned reputation as the world's sole superpower.

Executive and Congressional budget cuts will continue to force structural, personnel, and budgetary reductions upon Naval commands through FY99 by most projections. As such, the model of fiscal restraint responses is useful in encapsulating the inevitable problems that accompany changes brought about by fiscal reduction. NAVSEA appears to be an ideal model upon which to pattern future restructuring efforts, and the Jones model provides a useful understanding of how to proceed.

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